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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: ECO 101**

**COURSE TITLE: INTRODUCTION TO FINANCIAL ACCOUNTING 1**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 25/08/2021 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FIVE (5) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

‘The historical cost convention looks backwards but the going concern convention looks forwards.’

**Required:**

1. Explain clearly what is meant by:
	1. The historical cost convention; [**1 Mark]**
	2. The going concern convention. [**1 Mark**]
	3. Does traditional ﬁnancial accounting, using the historical cost convention, make the going concern convention unnecessary? Explain your answer fully. [**8 Marks]**
2. Which do you think a shareholder is likely to ﬁnd more useful – a report on the past or an estimate of the future? Elaborate on your answer. [**5 Marks**]
3. The following trial balance was extracted from the books of **Sangailu Traders** as at 31st December 2018.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Dr.****Ksh.(000)** | **Cr.****Ksh.(000)** |
| Furniture & Fittings | 440 |  |
|  Motor Vehicle  | 6250 |  |
| Buildings | 7500 |  |
|  Capital  |  | 12500 |
| Bad Debts | 125 |  |
| Debtors & Creditors  | 3800 | 2700 |
| Stock (as on 1st January 2018)  |  3460 |  |
| Purchases & Sales  | 5475  | 15450 |
| Bank Over Draft  |  | 2850 |
| Purchase Return  |  | 125 |
| Sales Return  | 200 |  |
| Advertising  | 450 |  |
| Interest (On Bank OD)  | 118 |  |
| Commission  |  | 375 |
| Cash  | 650 |  |
| Taxes and insurance  | 1250 |  |
| General expenses | 782 |  |
|  Salaries | 3300 |  |
| **Total** | **34,000** | **34,000** |

**Additional Information:**

1. Closing Stock 3,250,000.
2. Salary unpaid 300,000.
3. Insurance paid in advance 250,000.
4. Commission received in advance 25,000.
5. Depreciation on buildings @10%

**Required:**

1. Trading, Profit & Loss Account as on 31st December 2018 **[8 Marks]**
2. Statement of Financial Position as at 31st December 2018  **[7 Marks]**

**QUESTION TWO**

1. In a manufacturing business the costs are divided into different types. Discuss ﬁve costs that are classified as **direct** and ﬁve that are classified as **indirect**.  **[5 Marks]**
2. The following trial balance has been extracted from the books of Abdi Noor, Toy Manufacturer, as at 31 December 2018.

 **ABDI NOOR, TOY MANUFACTURER**

**TRIAL BALANCE AS AT 31 DECEMBER 2018**

|  |  |  |
| --- | --- | --- |
|  | **Dr.****Ksh.** | **Cr.****Ksh.** |
| Stock of raw materials 1.1.2018 Stock of ﬁnished goods 1.1.2018 Work in progress 1.1.2018 Wages (direct Ksh. 180,000; factory indirect Ksh. 145,000) Royalties Carriage inwards (on raw materials) Purchases of raw materials Productive machinery (cost Ksh. 280,000) Administration computers (cost Ksh. 20,000) General factory expenses Lighting Factory power Administration salaries  Sales reps’ salaries Commission on sales Rent Insurance General administration expenses  Bank charges Discounts allowed Carriage outwards Sales Debtors and creditors Bank Cash Drawings Capital as at 1.1.2018  | 21,00038,900 13,500325,0007,0003,500 370,000230,00012,00031,0007,50013,70044,00030,00011,500 12,0004,20013,4002,3004,8005,900142,30016,8001,50060,000 | 1,000,00064,000357,800 |
|  **1,421,800** | **1,421,800** |

**Additional information as at 31.12.2018:**

* 1. Stock of raw materials Ksh. 24,000; stock of ﬁnished goods Ksh. 40,000; work in progress Ksh. 15,000.
	2. Lighting, rent and insurance are to be apportioned: factory 5/6, administration 1/6.
	3. Depreciation on productive and administration computers at 10 per cent per annum on cost.

**Required:**

1. Manufacturing, Trading and Proﬁt and Loss Account for the year ending 31 December 2018 [**8 Marks]**
2. Balance Sheet as at 31 December 2018 [**7 Marks]**

**QUESTION THREE**

1. Suleiman Ibrahim, a builder was engaged by **Tana Water Services** to tackle some work on their premises, the total bill being for Ksh. 30,000. If one-third of this was for repair work and two-thirds for improvements, where should the two parts be entered in the accounting books and where would they appear in the ﬁnancial statements? **[2 Marks]**
2. Distinguish between expenditure that is capital in nature and that which is revenue expenditure and explain how the two items are treated in financial statements [**3 Marks]**
3. J. Maalim Traders Ltd., which started trading on 1st January 2015, adjusted its doubtful debt provision at the end of each year on a percentage basis, but each year the percentage rate is adjusted in accordance with the current ‘economic climate’. Below is a table of the debtors, the bad debts written off and the estimated bad debts at the rate of 2 per cent of debtors for the four years ended 31st December 2015, 2016, 2017 and 2018.

|  |  |  |  |
| --- | --- | --- | --- |
| **Year ended 31st December** | **Bad Debts written off during the year** | **Debts at the end of the year(after bad debts written off)** | **Provision for bad and doubtful debts** |
|  | **Ksh.** | **Ksh.** | **%** |
| 2015 | 423,000 | 600,000 | 2 |
| 2016 | 510,000 | 700,000 | 2 |
| 2017 | 604,000 | 775,000 | 2 |
| 2018 | 610,000 | 650,000 | 2 |

**Required:**

1. Bad Debts Accounts for each of the four years. **[2 Marks]**
2. Provision for Doubtful Debts Accounts for each of the four years. **[3Marks]**
3. Profit and Loss Account (Extracts) for the four years **[5 Marks]**
4. Balance Sheet (extracts) as at 31st December 2015, 2016, 2017 and 2018.  **[5 Marks]**

**QUESTION FOUR**

1. You are invited for a job interview in a large Pharmaceutical Company as a Cost Accountant. One of the panelist asked you to name and explain the main books of original entry, citing examples of transactions entered in each book.  **[5 Marks]**
2. Hussein Hassan, CEO of Medina Group of Companies provided you with the following information on credit relating to expenses for the month of May 2018.

|  |  |  |
| --- | --- | --- |
| **Date****2018** | **Particulars** | **Amount****Ksh.****(000)** |
| May | 1 | Bought goods from D Ochieng Ltd on credit  | 2,960 |
|  | 3 | Bought goods on credit from W David & Son  | 760 |
|  | 5 | Van repaired, received invoice from Yussuf Motors Ltd  | 1,120 |
|  | 6 | Bought packaging material from J Cheruto  | 650 |
|  | 8 | Bought goods on credit from C Bell Ltd  | 2,120 |
|  | 14 | Lorry serviced, received invoice from Yussuf Motors Ltd  | 390 |
|  | 23 | Bought packaging material on credit from Savanah Traders  | 350 |
|  | 26 |  Bought goods on credit from M Noor Ltd  | 2,430 |
|  | 30 | Received invoice for carriage inwards on goods from G Owen  | 58 |

**Required:**

1. Enter up a columnar **Purchases Day Book** with columns for the various expenses for the month of May 2018. **[7 Marks]**
2. Clearly show the entries in the respective ledgers **[8 Marks]**

**QUESTION FIVE**

**(a).** Describe five Accounting Concepts. **[5 Marks]**

**(b).** Control accounts kept in the General Ledger are normally prepared in the same form as an account, with the totals of the debit entries in the ledger on the left-hand side of the control account, and the totals of the various credit entries in the ledger on the right hand side.

You are provided with a transaction to be recorded in the **Sales Ledger**, describe eight processes involved. **[8 Marks]**

**(c).**

**(i).** The partners in a business have put in additional capital during the year. Even so, the bank balance has fallen dramatically. They want an explanation as to how this has happened. You are required to advise them by outlining usefulness of cash flow statement which will reveal the answers to their concerns. **[5 Marks]**

**(ii).** Describe the contents of Financial Reporting Standard 1 **(FRS 1**) and International Accounting Standard 7 (**IAS 7**) and the format to be used when preparing cash ﬂow statements using FRS 1 or IAS 7. **[2 Marks]**