PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS AND INFORMATION TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

MASTERS OF BUSINESS ADMINISTRATION

JANUARY – APRIL 2018 SEMESTER

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: MBA504

COURSE TITLE: FINANCIAL ACCOUNTING

EXAM DATE: MONDAY 9TH APRIL 2018

TIME: 9:00AM-12:00PM

INSTRUCTIONS

- This examination script consists of **Five (5)** questions.
- Answer **Question One And Any Other Three**
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

SECTION A [COMPULSORY]

QUESTION ONE

a) Identify any four users of accounting information and discuss what importance they attach to the financial statements of a company **[8 marks]**

b) Define the term 'Journal' as used in book keeping **[2 mark]**

c) Explain three reasons why it is necessary for a firm to prepare accounting information **[6 marks]**

d) Briefly explain any three qualities of useful accounting information **[6 marks]**

e) With the help of an example, explain what you understand by the terms:

i. Assets **[2 marks]**

ii. Liabilities **[2 marks]**

iii. Owners' capital **[2 marks]**

f) Briefly discuss any four principles of accounting **[12 marks]**

SECTION B [ANSWER ANY THREE QUESTIONS]

QUESTION TWO

Mr. White a Medical Doctor opened a clinic on July 1st 2014. During the month, he had the following transactions:

Jul. 1. Opened the clinic's bank account at KCB and deposited Kshs 300,000 to be used for the business.

Jul. 5. Paid Kshs 4,500 to the landlord for July rent by check

Jul. 7. Purchased a used motor vehicle for the business at Kshs 160,500. He paid Kshs 15,000 deposit by check and balance to be paid later.

Jul.9. Purchased a computer for the office by credit for Kshs 65,000

Jul.9. Withdrew Kshs 50,000 from the bank for business use

Jul.10. Purchased medicine for the clinic worth Kshs 100,000 but paid Kshs 10,500 by cash

Jul.12. Paid Kshs 12,000 insurance premiums for 12 months by cash

Jul.14. Received Kshs 30,000 from a client by cash

Jul.15. Paid Kshs 10,000 for office stationeries by cash

Jul.17. Paid Kshs 20,000 by cash to the supplier of computer

Jul.18. Received Kshs 150,000 from a client by cash out of which he banked Kshs 100,000

Jul.19. Treated a patient and gave a medical bill of Kshs 50,000 to be paid later

Jul.21. Paid the balance for motor vehicle purchased in full by check

Jul.22. Withdrew Kshs 10,000 from the bank for personal use

Jul.24. Received Kshs 80,000 from a client in cash

Jul.25. Fueled the Motor vehicle for Kshs 5,000 cash

Jul.27. Received electricity bill for the month of July to be paid later

Jul.28. Paid salary to office assistant Kshs 30,000 by check

Jul.29. Patient owing Kshs 50,000 deposited Kshs 20,000 in clinic's bank account

Jul.30. Paid Kshs 30,000 to the supplier of the medicine by check

Jul.31. Treated patient and gave a bill of Kshs 45,000 to be paid later.

Required:

i. Journalize the above transactions **[8 marks]**

ii. Post the Journal entries in respective ledger accounts **[8 marks]**

iii. Extract the trial balance for the clinic as at 31st July 2014 **[4 marks]**

QUESTION THREE

Lazlo Services which specializes in repair of appliances is a sole proprietorship business owned and operated by George. The accounts clerk had prepared the following trial balance as at 31st Dec 2014.

Lazlo Services Trial balance as at 31st December 2014

Details	**Debit**	**Credit**
Cash at hand	4,200	
Accounts receivable	20,600	
Prepaid insurance	6,000	
Supplies	1,450	
Land	100,000	
Buildings	181,500	

Accumulated depreciation (Buildings)		95,700
Equipment	80,100	
Accumulated depreciation (equipment)		35,300
Accounts payable		7,500
Unearned rent income		7,200
Owners capital		157,100
George's drawings account	5,000	
Sales		257,200
Salaries & wages expense	101,800	
Electricity expense	28,200	
Advertising expense	15,000	
Repair & maintenance expense	12,100	
Miscellaneous expenses	4,050	
Totals	**560,000**	**560,000**

The clerk took the above trial balance to George for review. Upon review, George realized that the clerk had forgotten to account for the following additional transactions:

i. Depreciation of buildings for the year, Kshs 6,500
ii. Depreciation of equipment for the year, Kshs 2,400
iii. Salaries for December 2014 not yet paid, Kshs 1,720
iv. Revenue earned but not billed as at 31st December 2014, Kshs 4,350
v. Insurance expense for December, Kshs 2,500
vi. Supplies used up in December, Kshs 1,075
vii. Rent income for December, Kshs 4,400

Required:

a) Journalize the adjusting entries based on the additional information given **[7 marks]**
b) Determine the new balances on the affected accounts **[7 marks]**
c) Prepare the adjusted trial balance **[6 marks]**

QUESTION FOUR

a) Explain why it is necessary to perform a bank reconciliation in a company **[8 marks]**

b) The bank column of Alphine Motors cash book as at 1st April 2014 indicated a balance of Kshs 1,691,195. During the month of April, total cash deposited in the bank account was Kshs 6,870,080 while total checks written amounted to Kshs 6,812,747. On 30th April 2014, the bank statement indicated a balance of Kshs

1,888,085. Upon comparing the bank statement with the cashbook, the accounts clerk came up with the following additional information:

i. Total checks issued by Alphine motors but not presented amounted to Kshs 518,027
ii. A deposit of Kshs 348,170 had not been reflected on the bank statement
iii. A check of Kshs 62,000 issued to a supplier had been entered wrongly by the bank as Kshs 26,000
iv. A check of Kshs 47,930 issued to a supplier had been recorded by Alphine's clerk as Kshs 49,730
v. The bank had erroneously credited Alphine bank statement with Kshs 342,400 instead of Kshs 320,000 against amount paid in by a customer. The amount had been recorded properly in the Alphine's cash book
vi. Bank charges for April amounted to Kshs 2,500 and the same had not been recorded by Alphine
vii. A check of Kshs 88,000 received from a customer and deposited to the bank account had been returned unpaid for lack of sufficient funds

Required:

Using the above information, prepare Alphine Motors bank reconciliation as at 30th April 2014 [**12 marks]**

QUESTION FIVE

a) By the help of an example, distinguish between straight line method and Depletion methods of depreciation [**6 marks]**

b) Briefly explain two reasons why it is necessary for a firm to depreciate her assets

[4 marks]

c) On 1st January 2010, ABC Ltd installed a refinery at a cost of Kshs 18 million and immediately commissioned it. ABC management board has approved the use of reducing balance method to depreciate the company's assets. Specifically, the refinery will be depreciated at 20% per year.

Required:

i. Compute the amount chargeable to depreciation expense account for the years ending 31st December 2010, 2011 and 2012 **[3 marks]**

ii. Open the Depreciation expense account, accumulated depreciation account and Refinery asset account and post the entries for the three years [**6 marks]**