PAN AFRICA CHRISTIAN UNIVESHITY

MASTER OF BUSINESS ADMINISTRATION

END OF TERM EXAMINATION

DEPARTMENT:

COUSHE CODE: MBA 504

COUSHE TITLE: FINANCIAL ACCOUNTING

EXAM DATE: APRIL 2021

TIME: 3 HSH

INSTRUCTIONS

- Read all questions carefully before attempting.
- Answer **QUESTION ONE AND ANY OTHER THREE**
- Write your **student number** on the answer booklet provided.

QUESTION ONE [COMPULSORY] – 10 MARKS

Provide the most accurate choice in each of the following questions

i. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
   A. Monetary unit assumption
   B. Economic entity assumption
   C. Time period assumption
   D. Going concern assumption

ii. Johnny's Car Repair Shop started the year with total assets of $60,000 and total liabilities of $40,000. During the year the business recorded $100,000 in car repair revenues, $55,000 in expenses, and dividends of $10,000. The net income reported by Johnny's Car Repair Shop for the year was
   A. $35,000.
   B. $45,000.
   C. $20,000.
   D. $90,000.

iii. A company purchased a POS cash register on January 1 for $5,400. This register has a useful life of 10 years and a salvage value of $400. What would be the depreciation expense for the second-year of its useful life using the declining-balance method?
   A. $ 500.
   B. $ 800.
   C. $ 864.
   D. $1,000.

iv. What accounting principle governs the timing of revenue recognition?
   A. Realization principle
   B. Materiality principle
   C. Matching principle
   D. Depreciation principle

v. Which of the following are internal users of accounting information?
   A. Creditors
   B. Potential investors
   C. Managers
   D. Researchers

vi. The appropriate journal entry to record equipment depreciation expense would consist of a debit to Depreciation Expense and a credit to which of the following accounts?
   A. Owner equity
   B. Cash
   C. Retained earnings
   D. Accumulated depreciation: Equipment

vii. If a business pays for only 11 months' rent during a financial year, what accounting term is given to the outstanding one month's rent?
   A. Repayment
   B. Prepayment
   C. Underpayment
   D. Payable

viii. A Trial balance which shows equal totals for both debit and credit columns?

A. Shows that there must be more than one error within the bookkeeping system
B. Shows that the bookkeeping system is free of errors
C. Shows that the arithmetic is correct, but errors may still be present in the bookkeeping system
D. Shows that there is only one error within the bookkeeping system

ix. Which one of the following is not true for Profit & Loss Account?
A. It shows whether a business has made a profit or loss over a financial year
B. It shows the financial position of a business for the period
C. It shows revenues and expenses for the period
D. It is used to calculate surplus/deficit for a particular period

x. Adjusting entries at the end of an accounting period would not be required for which of the following
A. Multi period costs that must be split among two or more accounting periods
B. Multi period revenues that must be split among two or more accounting periods
C. Expenses that have been incurred in a given period but not yet recorded in the accounts
D. Revenue that has been earned and recorded in the accounting records

QUESTION TWO

On April 01, 2016 Anees started business with Sh. 100,000 and other transactions for the month are:

2nd Purchase Furniture for Cash Sh. 7,000.

8th Purchase Goods for Cash Sh. 2,000 and for Credit Sh. 1,000 from Khalid Retail Store.

14th Sold Goods to Khan BrotheSh Sh. 12,000 and Cash Sales Sh. 5,000.

18th Owner withdrew of worth Sh. 2,000 for personal use.

22nd Paid Khalid Retail Store Sh. 500.

26th Received Sh. 10,000 from Khan Brothers

30th Paid Salaries Expense Sh. 2,000

Required:

Pass the relevant journal entries in the books of Anees during the month of April [10 marks]

QUESTION THREE

You are supplied with the information below extracted from the books of Ms. Maliha Afzal as at 31.03.2020.

Drawings Sh. 74,800 Purchases Sh. 295,700 Stock (1.04.2019) Sh. 30,000

Bills receivable Sh. 52,500 Capital Sh. 250,000 Furniture Sh. 33,000

Discount allowed Sh. 950 Sales Sh. 335,350 Rent Sh. 72,500

Freight Sh. 3,500 Printing charges Sh. 1,500 Sundry creditors 75,000

Insurance Sh. 2,700 Sundry expenses Sh. 21,000 Discount received Sh. 1,000

Bank loan Sh. 120,000 Stock (31.03.2020) Sh. 17,000 Income tax Sh. 9,500

Machinery Sh. 215,400 Bills payable Sh. 31,700

Required:

Prepare the Trial Balance as at 31.03.2020 from the balances **[10 marks]**

QUESTION FOUR

An inexperienced book-keeper produced the following Incorrect and Unadjusted Trial Balance as at 31st December 2020 for Wasim Mubarak.

Particulars	Debit	Credit
Purchases Returns	13,000	
Machinery	34,000	
Salaries		17,200
Creditors		33,000
Cash In hand	40,000	
Carriage inwards	6,000	
Rent Received		3,000
Discount allowed		2,000
Purchases	100,000	
Bills payable		20,000
Debtors	15,000	
Carriage outwards		5,000
Owners capital	53,200	
Buildings		18,000
Sales returns	3,000	
Discount received		14,000
Insurance expenses	6,000	
Sales		130,000
Furniture		20,000
Suspense Account		8,000
Totals	270,200	270,200

Additional Information:

i. Salary Payable on December 31, 2020 is Sh. 1,500
ii. Depreciation on Furniture charged to 10% by straight line method
iii. Inventory on hand as at 31st December 2020 is Sh. 60,000
iv. Sh. 30,000 of Sales Account is unearned

Required:

Corrected and adjusted Trial balance **[10 marks]**

QUESTION FIVE

The following trial balance was prepared for Otieno's business as at 30th June 2018.

DETAILS	DR($)	CR($)
Rent	940	

Insurance charges	1,804	
Electricity	1,990	
Motor vehicle repair	2,350	
Salaries and wages	48,580	
Sales		382,420
Purchases	245,950	
Other expenses	624	
Lorry	19,400	
Accounts payable		23,408
Accounts receivable	44,516	
Furniture	4,600	
Buildings	174,000	
Cash at bank	11,346	
Drawings	44,000	
Owner's capital		194,272
Totals	**600,100**	**600,100**

Additional Information:

Inventory at 30 June 2018 was $29,304.

Required:

Prepare for Otieno the statement of income and expenditure for the period to 30th June 2018
[10 marks]

QUESTION SIX

a) Identify and illustrate any two methods of depreciating fixed assets **[4 marks]**
b) Explain any three reasons why depreciation is chargeable on fixed assets **[6 marks]**