



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya.  
Tel: +254(0) 799 529 958, +254(0) 799 529 959, +254 (0)712 524 293  
Website: [www.must.ac.ke](http://www.must.ac.ke) Email: [info@mucst.ac.ke](mailto:info@mucst.ac.ke)

---

## UNIVERSITY EXAMINATIONS 2023/2024

FIRST YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN BUSINESS  
ADMINISTRATION

### BFE 1103/BFD 2101: FINANCIAL ACCOUNTING

DATE: APRIL 2023

TIME: 1½HOUR

---

**INSTRUCTIONS: Answer Question ONE and any other TWO questions.**

---

#### QUESTION ONE (30 MARKS)

- a) Explain the nature of accounting and the accounting equation (6 marks)
- b) Explain the following accounting concepts:
- i. Duality concept (2 marks)
  - ii. Accrual Concepts. (2 marks)
  - iii. The consistency concept (2 marks)
- c) The following transactions relate Mr. Inoti's enterprise in the year 2020.

April 1	Started business with shs. 50,000,000 in the bank.
" 2	Bought motor van paying by cheque shs. 12,000,000
" 5	Bought Fixtures on credit from Makutano Ltd.
" 8	Bought a van on credit from CMC. Ltd shs. 8,000,000.
" 12	Took shs. 1,000,000 out of the bank and put it into the cash till.
" 15	Bought Fixtures paying by cash shs. 600,000.
" 19	Paid Motor Cars Ltd by cheque shs. 8,000,000.
" 21	A loan of shs. 10,000,000 cash is received from Mr. Musyoka.
" 25	Paid shs. 8,000,000 of the cash in hand into the bank account.



“ 30 Bought more Fixtures paying by cheque shs. 3,000,000.

**Required:**

- i. Open all the ledger accounts for Mr. Inoti, record the transactions and balance all the accounts
- ii. Prepare Mr. Inoti's balance sheet as at 30<sup>th</sup> June 2020 (10 marks)
- d) Explain four types of bookkeeping errors which are not disclosed by a trial balance.(4 marks)
- e) State and explain any two principal qualities of useful financial information. (4marks)

**QUESTION TWO (20MARKS)**

The following trial balance is taken form the books of Sifa Traders as at 31<sup>st</sup> December 2010.

	Dr	Cr
	Sh. '000'	sh. '000'
Stock 1 <sup>st</sup> December 2010	23,680	
Carriage outwards	2,000	
Carriage inwards	3,100	
Returns inwards	2,050	
Returns outwards		3,220
Purchases	118,740	
Sales		186,000
Salaries and wages	38,620	
Rent	3,040	
Insurance	780	
Motor expenses	6,640	
Office expenses	2,160	
Lighting and heating expenses	1,660	
General expenses	3,140	
Premises	50,000	
Motor vehicles	18,000	
Fixtures and fittings	3,500	



Debtors	38,960	
Creditors		17,310
Cash at bank	4,820	
Drawings	12,000	
Capital		126,360
		_____
	332 890	332 890

Additional information.

1. Closing stock of goods for resale of sh. 10,180,000
2. Depreciation is provided on fixtures at 20% per annum on cost. Motor vehicles are to be depreciated at 25% per annum on cost.
3. General expenses include prepaid electricity of Sh.100,000.
4. Rent of shi. 90,000 was still owing as at 31<sup>st</sup> Dec 2010

You are required to;

- i. Draw up a trading and profit and loss account for the year ended 31<sup>st</sup> December 2010 (12 marks)
- ii. Prepare a balance sheet as at that date. (8 marks)

### QUESTION THREE (20MARKS)

a) Geokom sets up a new business. Before he actually sells anything he has bought motor vehicles of sh. 3,000,000, premises of sh.7, 000,000 stock of goods sh.2, 000,000. He still owes sh. 800,000 in respect of them. He had borrowed sh. 4,000,000 from Daniel. After the events just described and before trading starts, he had sh. 300,000 cash in hand and sh. 600,000 cash at bank.

**Required;**

- Calculate the amount of his capital. (5 marks)
- b) From the following information prepare;
  - i. A three-column cashbook, balanced off,
  - ii. The relevant discount accounts in the general ledger. (15 marks)



2010

- Mar 1 Balances brought forward: Cash sh. 230,000; Bank sh. 4,756,000.
- “ 2 The following paid their accounts by cheque, in each case deducting 5 percent discounts: R Burton sh. 140,000; E Taylor sh. 220,000; R Harris sh. 800,000.
- “ 4 Paid rent by cheque sh. 120,000
- “ 6 J Cotton lent us sh.1, 000,000 paying by cheque.
- “ 8 we paid the following accounts by cheque in eah case deducting a 2½ percent cash discount: N Black sh. 360,000; p Towers sh. 480,000; C Rowse sh.300,000
- “ 10 paid motor expenses in cash sh.44,000.
- “ 12 H Hankins pays his account of sh. 77,000, by chequee sh. 74,000,deducting sh.3,000 cash discount.
- “ 15 paid wages in cash sh. 160,000
- “ 18 the following paid their accounts by cheque, in each case deductin 5 pe per cent cash discount: C Winston sh. 260,000; R Wilson & Son sh.3440,000; H Winter sh.460,000
- “ 21 cash withdraw from the bank sh.350,000 for business use.
- “ 24 cash drawings sh.120,000
- “ 25 paid T Briers his account of sh. 140,000, by cash sh.133,000, having deducted sh.7,000 cash discount
- “ 29 Bought fixtures paying by cheque sh.650,000.
- “ 30 received commission by cheque sh. 88,000

#### QUESTION FOUR (20MARKS)

(a) Explain the term "bank reconciliation" and state the reasons for its preparation. (6 marks)

(b) Erick, a sole trader received his bank statement for the month of June 2010. At that date the bank balance was Sh. 706,500 whereas his cash book balance was Sh.2,366,500.

His accountant investigated the matter and discovered the following discrepancies:



1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
2. Cheques drawn by Ssemakula totaling Sh.22, 500 had not yet been presented to the bank.
3. He had not entered receipts of Sh.26, 500 in his cashbook.
4. The bank had not credited Mr Erick with receipts of Sh.98, 500 paid into the bank on 30 June 2010.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cashbook Erick had entered a payment of Sh.74, 900 as Sh.79, 400.
7. A cheque for Sh.15, 000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Erick had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honored it.
10. Some of Erick's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Erick had actually entered the expected receipts from the debtors in is cashbook.

**Required:**

- i. A statement showing Erick's adjusted cashbook balance as at 30 June 2010. (9 marks)
- ii. A bank reconciliation statement as at 30 June 2010 (5marks)

**QUESTION FIVE (20MARKS)**

- a) Differentiate between: (5marks)
  - i. Capital expenditure and Revenue expenditure. (2 marks)
  - ii. Real accounts and Nominal accounts. (2 marks)
  - iii. Returns inwards and returns outwards (2marks)
  - iv. Carriage inwards and carriage outwards (2 marks)



- b) Briefly explain the reasons for providing depreciation on non-current assets. (8 marks)
- c) Describe the accounting information needs of the following two user groups:
- i. Employees (2 marks)
  - ii. Government and their agencies (2 marks)

