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UNIVERSITY EXAMINATIONS 2024/2025

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR
OF SCIENCE IN HEALTH RECORDS AND INFORMATION MANAGEMENT

HPR 3215: INTRODUCTION TO FINANCIAL ACCOUNTING

DATE: DECEMBER 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Describe the nature of accounting and the accounting equation
- b) Explain the following accounting concepts: (3 marks)
 - i. Duality concept (2 marks)
 - ii. Accrual Concepts. (2 marks)
- c) The following transactions were recorded in the books of Mr. Gabu during the month of April 2022.
 - 1st Started a business with KES 1,000,000 in the bank and KES800, 000 cash
 - 2nd Bought a lorry KES 600,000 paying by cheque
 - 3rd Purchased goods for sale KES 100,000 cash
 - 4th Incurred KES 50,000 to transport the goods purchased by paying by cash
 - 5th Purchased goods on credit from Achievers Ltd KES 800,000
 - 6th Sold goods for cash KES 100,000
 - 9th Paid salaries and wages KES 300,000 by cheque
 - 9th Received dividend income KES200,000 by cheque
 - 10th Sold goods on credit to Mr. John Mbogo KES 400,000
 - 10th Paid transport costs KES 30,000 cash to deliver the goods to Mr. John Mbogo's premises.
 - 11th Purchased office equipment KES 200,000 by cheque
 - 12th Sold goods KES 200,000 receiving a cheque
 - 14th Purchased goods on credit from Gilani's supermarket KES 1,000,000



15th Paid advertisement expenses KES 300,000 in cash
 16th cash sales KES 800,000
 19th Deposited KES 400,000 into the bank account
 19th Received rental income KES 50,000 cash
 20th Received loan form bank KES 2,200,000 by cheque
 21st Withdraw KES 100,000 from the bank for office use.
 22nd Paid Gilani's Supermarket the amount due less 10% discount by cheque
 23rd sold goods on credit to Mr. John Mbogo KES 300,000
 24th Settled the amount due to Achievers Ltd less 5% discount by cheque
 25th Sold goods KES 2,000,000 receiving a cheque
 25th Received cheque from John Mbogo for amount due less 10% discount
 26th Withdrawal Kes 100,000 from the bank for personal use.
 27th Paid salaries and wages Kes 200,000 cash
 28th Paid office rent Ksh 30,000 by cheque
 29th Paid rent for his residential house Kes 90,000 by cheque
 30th cash purchase 100,000
 30th Paid expenses to transport purchases to the business premises Kes 20,000 in cash.

Required:

- i. Post the business transactions in the ledger accounts (8 marks)
- ii. Balance off the ledger accounts (4 marks)
- iii. Extract a trial balance as at 30th April 2022. (3 marks)
- d) Explain four types of bookkeeping errors which are not disclosed by a trial balance. (4 marks)
- e) Discuss the principal qualities of useful financial information. (4marks)

QUESTION TWO (20 MARKS)

The following trial balance was extracted from the books of Purity Kinya, a sole trader, as at 30 April 2022:

	KES	KES
		'000'
Capital		22,000
Sales		37,000



Trade creditors		824
Bank balance		132
Loan from small trader association		925
Purchases	24,000	
Purchases returns		28
Sales returns	136	
Discounts received		120
Discounts allowed	193	
Salaries and wages	2,465	
Rates and rents	1,320	
Insurance	462	
Telephone and postage	385	
Transport and travelling	1,268	
Loan interest	449	
Bank charges and interest	178	
General expenses	214	
Trade debtors	1,560	
Inventory in trade 1 st May 2021	1,260	
Land and building at cost	13,650	
Plant and machinery at cost	8,500	
Provision of depreciation		1,450
Motor vehicles	6,200	
Provision of depreciation		2,600
Drawings	2,300	
Bad debts	79	
Cash in hand	460	
	<u>65,079</u>	<u>65,079</u>

Additional information:

1. Closing inventory in trade was valued at KES 1,468,000.
2. Insurance paid in advance amounted to KES 55,000.
3. The unpaid telephone bill as at 30th April 2022 amounted to KES 73,000.
4. PK had taken goods worth KES 250,000 from the business for his own use.
5. April 2022 wages amounting to KES 320,000 were paid on 5th May 2022.
6. The transport and travelling included personal travelling amounting to KES 175,000.



7. The depreciation on fixed assets is provided on straight line basis at the following rates:
Plant and machinery 20%
Motor vehicles 25%
8. Make an allowance for bad and doubtful debts at 5% of trade debtors.

Required:

- a) Trading and profit and loss account for the year ended 30th April 2022. (12 marks)
- b) Statement of financial position as at 30th April 2022. (8 marks)

QUESTION THREE (20 MARKS)

- a) R. Kakai 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;

Using the accounting equation, calculate the amount of his capital. (5 marks)

- b) S. Kiwanuka opened a textile business on 1 January 2023. His transactions for the month of January were as follows:-

January 2 Opened bank account and deposited cash of KES 500,000 and retained KES 100,000 in cash

3 Paid KES 30,000 for rent in cash

4 Purchased clothes for KES 600,000 from Mulwa and Co. on credit.

5 Sold clothes for KES 600,000 in cash

6 Purchased new office furniture for KES 500,000 by cheque. 9 Banked cash KES 300,000.

10 Purchased clothes worth KES 300 000 from Matthew and Mati Drapers and paid half of the amount by cheque.

11 Sold clothes worth KES 200,000 on credit to Bagaya Exporters.

12 Hired transport for KES 30,000 and paid in cash

13 Bagaya Exporters returned some clothes costing KES 30,000 and were given credit note for the same.

16 Received cheque for KES60, 000 from Bagaya Exporters on account,

18 Purchased clothes for KES 90,000 on credit from Samuel Omayo.

21 Sold clothes worth KES 50,000 on credit to B.C. Boutique.



- 23 Paid Mulwa and Co. KES 150,000 by cheque on account.
- 24 Withdrew KES 60,000 from bank for personal use.
- 25 Bought clothes for KES 83,000 and paid by cheque.
- 28 Sold clothes for KES 54,000 to Sunshine Boutique and received a cheque of KES 14,000. 30 Paid Matthew and Mati Drapers by cheque the full amount due to them less 5% discount.
- 31 Paid salaries KES 50,000 in cash and a water bill KES 7,000 by cheque.

Required: From the above information prepare;

- i. A three-column cashbook, balanced off,
- ii. The relevant discount accounts in the general ledger. (15 marks)

QUESTION FOUR (20MARKS)

- a) Explain the term "bank reconciliation" and state the reasons for its preparation. (6 marks)
- b) Mr. T. Ogola, a sole trader requested his accountant to furnish him with the cash book for the month of July 2023. The cash book showed a debt balance of KES 72,160 on July 1, 2023. Two days later, he received a bank statement from KCB which showed a credit balance of KES 98,640. He was dismayed and suspected that the accountant was not accurate in posting the transaction in the cashbook.

Upon further investigation, the following discrepancies were discovered.

- 1. A debtor had remitted KES 19,400 to the bank.
- 2. Mr. T. Ogola had issued cheques totaling KES 122,990 which did not appear in the bank statement.
- 3. Cheque amounting to KES 78,900 were deposited on June 30, 2018 and did not appear in the bank statement.
- 4. The bank had made payments of KES 16,000 to Mr. T. Ogola's landlord and KES 4,000 to the insurance company durin§ the month of June 2023.
- 5. The bank had deducted KES 4,820 as ledger fees, interest and withdrawal fees.
- 6. A cheque of KES 12,100 deposited on 23/06/2023 was returned by the bank market "R/D"

Required: Prepare:

- (a) Adjusted cash book
- (b) Bank reconciliation statement (14 marks)



QUESTION FIVE (20MARKS)

- a) Differentiate between:
- 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. (6 marks)
- c) The users of accounting information have an interest in the existence of the firm. Therefore the information contained in the financial statements will affect the decision making process. Discuss six users of accounting information and their need for this information (6 marks)

