



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**
SECOND SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBM O8

COURSE TITLE: FINANCIAL ACCOUNTING

EXAMINATION DURATION: 3 HOURS

DATE: 13/04/18

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** 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 **SIX (6)** printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) Explain two advantage of partnership **[4 marks]**
- (b) Smith and Alex are partners sharing profit and losses in the ratio 2:1 respectively. The following trial balance was extracted from their books on 30th June 1990.

Particulars	Sh.	Sh.
Stock 1 st July 1989	50,020	
Purchases and sales	82,360	143,000
Returns inwards and outwards	3,060	1,600
Wages	25,750	
Discounts allowed and discount receive	850	1,200
Insurance	1,750	
Heating and lighting	3,840	
Salaries	7,240	
Carriage outward	2,710	
Trade expense	720	
Loan interest	1,000	
Cash in hand	550	
Cash at bank	3,700	
Debtors and creditors	22,480	19,550
Loan from industrial bank	20,000	
Machinery 1 st July 1989	30,000	
Machinery bought on 1 st January 1990		5,000
Land and buildings	32,000	
Goodwill	3,000	



Capital smith 57,000

Alex 43,000

Current account smith 4,000

Alex 1,000

Drawings: smith 8,320

Alex 4,000

289,350

289,350

The following additional information is available:-

1. Stock on 30th June 1990 was valued at sh. 47,000
2. On 30th June, 1990 sh. 1,250 was owing for wages.
3. Allow 10% p. depreciation on machinery

Required:-

- i. Firms trading and profit & Loss and appropriation Account for the year ended 30th June 1990 **[8 marks]**
- ii. Partners Current Account **[5 marks]**
- iii. Statement of financial position **[8 marks]**

QUESTION TWO

- (a) Define the word company in its strict sense of the word **[2 marks]**
- (b) Explain four difference between private company and public company **[8 marks]**
- (c) Highlight the content of both memorandum of association and articles of association. **[5 marks]**



QUESTION THREE

- (a) The fact that a trial balances is in agreement is not proof of absolute accuracy of the books of account. Identify **five** classes of Errors which are not disclosed by trial balances. **(5marks)**
- (b) A trial Balance extracted from the books of Lathan had the following totals.
- Debit side total Shs.938, 400
- Credit side total Shs.932, 300
- Lathan opened a suspend account and placed the difference in trial balance there to. He discover the following errors and omissions.
- (a) A credit note for Shs. 2,300 received from shah wholesalers had not been recorded anywhere in the books.
 - (b) A credit note for Shs. 1,400 issued to patel retailers had been entered correctly in the appropriate subsidiary book but had not been posted to their personal account.
 - (c) A cheque for Shs. 7,400 received from Hafsa was entered as Shs.4, 700 in the cash book and posted to the ledger accordingly.
 - (d) Discount allowed Shs. 2,350 were credited to discount received account in the ledger.
 - (e) Rent received Shs. 2,200 has been credited to premises account.
 - (f) Sales book was under cast by Shs. 9,400.

Required:

- i. Journal entries to rectify above errors and omissions **[6 marks]**
- ii. Suspense Account, dully balanced. **[4 marks]**

QUESTION FOUR

- (a) Explain the users of financial information. **[7 marks]**
- (b) Highlight the quality of accounting information. **[4 marks]**
- (c) Explain two the limitation of financial information. **[4 marks]**

QUESTION FIVE

The following is the trial balance extracted from the books of a sole trader, **Haluqo wholesalers** at 31st December 2017.



Particulars	DR	CR
	Sh.	Sh.
Stock 1 st January 2017 50,000		
Freehold premises 240,000		
Bills receivables 30,000		
Purchases 280,000		
Salaries and wages 35,000		
Sales 520,000		
Fixtures and fittings 25,000		
Discount allowed 7,500		
Discount receive 4,500		
Plant and machinery 140,000		
Rates 5,600		
Advertising 10,400		
Insurance 3,800		
General expense 7,200		
Provision for bad debt 1,800		
Sundry debtors 60,000		
Bills payables 15,000		
Sundry creditor 43,000		
Cash in hand 2,400		
Bank overdraft 18,600		
Drawings 6,000		
Capital account 300,000	_____	_____
902,900	902,900	
	=====	=====



The following additional information is provided

1. Provide the depreciation of plant and machinery at 10% per annum and fixtures and fittings at 15% per annum.
2. Increase the provision for Bad debts to an amount equal to 4% of sundry debtor
3. Prepaid insurance amount to Shs. 500
4. Closing stock was Shs.60,000
5. Rates accrued Shs. 400
6. During the year, **Mr. FARAH** who was the owner of **HULUQO** wholesalers took Goods worth Shs. 2,000 for his personal use.

Required:-

- i. Statement of comprehensive income [8 marks]
- ii. Statement of financial position [7 marks]

QUESTION SIX.

Write explanatory notes on the following

- i. Accruals income and accruals [4 marks]
- ii. Prepaid income and prepaid expenses [4 marks]
- iii. Discount allowed and discount received [4 marks]
- iv. Bad and doubtful debts accounts [3 marks]

