



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF COMMERCE/BACHELOR OF FINANCIAL SERVICES/BACHELOR OF SCIENCE IN
SUPPLY CHAIN AND OPERATIONS MANAGEMENT
END OF SEMESTER EXAMINATION

BCM 1101/BFS 1102/SCM 1103: Accounting in Business I/Accounting in Business

Date: Wednesday, 15th December 2021

Time: 2 Hours

Instructions

This examination consists of **FIVE** questions.

Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

Question One

i) IASB Framework examines both Fundamental and Enhancing qualities of financial information that make it useful for decision-making. Identify and explain the enhancing qualities of good accounting information for decision making. **(8 Marks)**

ii) Samson and Samira are operating a partnership business together. According to the partnership deed, interest is to be allowed on the opening capital account balances a rate of 5% per annum and Samson is to be given a salary of Ksh. 1,800,000 per annum. Interest is to be charged on drawings at 5% per annum and the profits and losses are to be shared in the ratio 3:2 between Samson and Samira.

The following trial balance was extracted from the books of the partnership at 31 December 2020.

	Ksh.	Ksh.
Capital account: Samson		5,000,000
Samira		7,500,000
Current account: Samson		400,000
Samira		500,000
Drawings: Samson	1,700	
Samira	2,000	
Sales		56,583,700
Purchases	29,138,000	
Returns inwards and outwards	80,000	33,000
Carriage inwards	315,000	
Staff salaries	14,115,000	
Insurance	250,000	
Rent	1,000,000	
General office expenses	950,000	
Bad debts written off	115,000	
Fixtures and fittings -cost	7,400,000	
-accumulated depreciation		1,200,000
Debtors and creditors	13,750,000	2,340,000
Cash	40,000	
Office equipment –cost	9,200,000	
-accumulated depreciation		2,800,000
	76,356,700	76,356,700

Additional information

- A provision for doubtful debts is to be carried forward of sh. 150,000.
- Insurances paid in advance at 31 December 2020 were sh. 10,000.
- Staff salaries owing sh. 90,000.
- Fixtures and fittings are to be depreciated at 10% on cost.
- Office equipment are to be depreciated at 15% reducing balance.

- Stock at 31 December 2020 was sh. 200,000.

Required:

- a) The Partners Income Statement (7 Marks)
- b) Profit and Loss Appropriation (4 Marks)
- c) The Partners Current account (3 Marks)
- d) Statement of Financial Position (8 Marks)

TOTAL: 30 MARKS

Question Two

XYZ Ltd. account of plant and machinery as at 1/1/2019 stood at sh. 11,000,000 while the accumulated depreciation stood at sh. 4,000,000. It is the company's policy to charge depreciation at 10% per annum on cost **proportionate to time** on all assets and no charge in the year of disposal. The following transactions took place:

Purchases

Date	Item	Amount
1/2/2019	Machinery X	3,000,000
30/6/2019	Machinery Y	4,000,000

Disposals

Date	Item	Original cost	Sale proceeds	Date of purchase
1/4/2019	Machinery A	2,000,000	900,000	30/6/2015
30/6/2019	Machinery B	1,500,000	1,200,000	1/9/2017

Other transactions:

- i. Machinery bought on 30/6/2016 at sh. 1,000,000 was completely damaged on 1/4/2019. The insurance company paid sh. 700,000.
- ii. Machinery bought on 30/6/2015 at sh. 1,000,000 was exchanged for a new one costing sh. 1,200,000 on 31/7/2019. The company paid sh. 400,000 in the exchange.

Required:

- a) Machinery A/C (4 Marks)
- b) Depreciation A/C (3 Marks)
- c) Accumulated depreciation A/C (4 Marks)
- d) Disposal A/C (4 Marks)

TOTAL: 15 MARKS

Question Three

a) Explain **six** timing differences that may lead to a time lag in the receipt of information or recording of a transaction between the bank and the business. **(6 Marks)**

b) Maria’s cashbook bank column for the month of December 2019 was as follows:

Date	Amt.	Details	Amt.	Date	Inv. no	Details	Amt.
1/12		Balance b/d	50,000	3/12	121	Furniture	15,000
4/12	020	Musa	15,000	5/12	122	Salaries	16,000
6/12	039	Kimani	13,000	8/12	123	KKK	15,000
12/12	026	Otieno	16,000	26/12	124	Jogoo	12,000
18/12	186	Juma	20,000	22/12	125	Okumu	10,000
				31/12		Balance c/d	46,000
			<u>114,000</u>				<u>114,000</u>

Her bank statement as at that date was as follows

Bank statement 31/12/19

Date	Details	Debit	Credit	Balance
1/12	Balance		50,000	50,000
3/12	121	15,000		35,000
4/12	020		15,000	50,000
5/12	122	16,000		34,000
6/12	Ledger fees	1,000		33,000
6/12	039		13,000	46,000
7/12	Interest		3,000	49,000
15/12	Telcom	2,000		47,000
25/12	Communication	1,000		46,000

31/12	Balance	-	-	46,000
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Required: Draw the bank reconciliation statement

(9 Marks)

TOTAL: 15 MARKS

Question Four

On 2nd January 2021, Rita received sh. 500,000 from her self-help group as a soft loan to start a fashion design business called Magdud fashions. She will rent some premises from Tajiri, a local landlord.

The following transactions took place in January:

Date	Transaction
2nd Jan	Opens a bank account for Magdud fashions with sh. 500,000
2nd Jan	Pays Tajiri for rent of the premises sh. 60,000 by cheque
3rd Jan	Purchases in cash for sh. 100,000
4th Jan	Cash Purchases worth sh. 20,000
6th Jan	Pays for electricity sh. 12,000 by cheque
7 th Jan	Pays Manguo Suppliers their account sh. 30,400 by cheque
8th Jan	Draws sh. 10,000 from bank to pay school fees for the son
10th Jan	Receives cheque from Mumbi sh. 20,000 for curtains she bought
13th Jan	Receives sh. 250,000 by cheque from City Primary for curtains sold on credit
13th Jan	Sells dress for sh. 45,000 cash
17th Jan	Pays advance salary to Naomi the tailor sh. 8,000 cash
23rd Jan	Sells skirts sh. 30,000 cash
26th Jan	Purchases sh. 200,000 paid by cheque
29th Jan	Pays Naomi balance of salary sh. 10,000 cash
30th Jan	Sells sports clothing at sh. 200,000 cash
31st Jan	Pays loan sh. 12,000 by cheque
31st Jan	Draws cash for personal use sh. 30,000

Required: Draw an analytical cash book so as to balance it at 31/1/2021

(15 Marks)

Question Five

i) The IASB's Framework for the Preparation and Presentation of Financial Statements requires financial statements to be prepared on the basis that they comply with certain accounting concepts, assumptions and conventions. Some of these are:

- a) Business entity
- b) Prudence
- c) Going concern
- d) Substance over form

Explain the meaning of each of the above assumptions and their implication in preparation of financial statements **(8 Marks)**

ii) The users of financial statements are those groups identified as having reasonable right to the information and whose information needs should be recognized. List and explain **SEVEN** groups interested in financial statement of a business enterprise. **(7 Marks)**

TOTAL: 15 MARKS