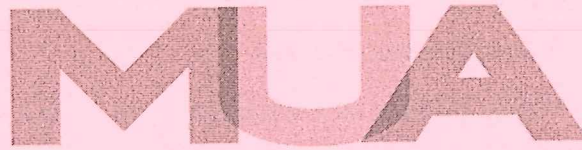


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

DIPLOMA UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DIPLOMA COMMON UNIT

DCU 102: INTRODUCTION TO FINANCIAL AND COST ACCOUNTING

DATE: 11TH DECEMBER 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **FOUR** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **10 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

- a) Identify any five users of financial accounting information and explain their respective information needs **(5 marks)**
- b) Dakat began trading as a wholesaler on 1 May 2018 with a capital of \$ 5,000.00 with which she opened a bank account for his business. During May the following transactions took place.

May 1 Bought shop fittings and fixtures from store fitments Ltd for \$ 2,000.
May 2 Purchased goods on credit from Abel \$ 650.00
May 4 Sold goods on credit to Bruce \$ 700.00
May 9 Purchased goods on credit from Green \$ 300.00
May 11 Sold goods on credit to Hill \$ 580.00
May 13 Cash sales paid into bank account \$ 200.00
May 16 Received cheque from Bruce in settlement of his account
May 17 Purchased goods on credit from Kay \$ 800.00
May 18 Sold goods on credit to Nailor \$ 360.00
May 19 Sent Cheque to Abel in settlement of his account
May 20 Paid rent by cheque \$ 200.00
May 21 Paid delivery expenses by cheque \$ 50.00
May 24 Received from Hill \$ 200.00 on account
May 30 Drew cheque for personal expenses \$ 200.00 and assistant wages \$ 320.00
May 31 Settled the account of Green.

Required

- i. Prepare a two column cashbook for Dakat **(5 Marks)**
- ii. Post the entries in the ledger and balance off the ledger accounts **(8 Marks)**
- iii. Extract a trial balance as at 31st May 2018. **(7 Marks)**
- c) Explain five benefits of cost accounting **(5 marks)**

QUESTION TWO

- a) Manu Ventures is owned by a sole trader. The following Trial Balance was prepared from the business accounts on 31st December 2017.

| | Dr Ksh | Cr Ksh |
|---|----------------|----------------|
| Capital | | 185,280 |
| Inventory | 24,200 | |
| Sales | | 421,450 |
| Purchases | 167,350 | |
| Purchase returns | | 6,040 |
| Electricity | 2,230 | |
| Discounts allowed | 2,420 | |
| Discounts received | | 4,270 |
| Motor expenses | 1,580 | |
| Drawings | 32,000 | |
| Bank | 24,511 | |
| Salaries | 108,000 | |
| Insurance | 15,400 | |
| Receivables | 110,140 | |
| Irrecoverable debts | 1,420 | |
| Allowance for receivables | | 3,153 |
| Payables | | 76,288 |
| General expenses | 6,780 | |
| 9% Loan (2012-2019) | | 150,000 |
| Loan interest | 12,000 | |
| Land and buildings | 340,000 | |
| Accumulated depreciation for buildings | | 26,000 |
| Equipment | 22,000 | |
| Accumulated depreciation for equipment | | 10,300 |
| Motor vehicles | 26,000 | |
| Accumulated depreciation for motor vehicles | | <u>13,250</u> |
| | <u>896,031</u> | <u>896,031</u> |

The following information is also available.

- i. Only 10 months' salaries are shown in the Trial Balance. An equal amount is paid for salaries for each month of the year.
- ii. As at 31st December 2017, Ksh. 3,200 had been prepaid for insurance, whilst Ksh. 410 owed for general expenses.
- iii. Ksh. 4,600 had been charged to general expenses for the owner's private holiday.
- iv. As at 31st December 2017, stock was valued at Ksh. 22,500.
- v. A customer, owing Ksh. 5,040 has been declared bankrupt. This amount is to be written off in full.
- vi. An allowance for receivables is to be maintained at 3% of the remaining receivables.
- vii. As at 31st December 2017, the business's land was valued at Ksh. 100,000. Land is not depreciated.
- viii. Depreciation is to be provided as follows:

| | |
|-----------------|--|
| Buildings: | 4% per annum using the straight line method. |
| Equipment: | 25% per annum using the straight line method. |
| Motor vehicles: | 40% per annum using the reducing balance method. |
- ix. There were no additions or disposals of non-current assets during the financial year.

Required:

Prepare the Income Statement for the year ended 31st December 2017. (10 Marks)

QUESTION THREE

- a) The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of

information contained in financial reports. Explain any five Generally Accepted Accounting Principles (10 marks)

QUESTION FOUR

- a) Outline your understanding of each of the error types below and state whether the error would leave the trial balance in balance or not. (5 marks)
- i. Error of omission
 - ii. Error of transposition
 - iii. Casting error
 - iv. Error of principle
 - v. Error of original entry
- b) Outline any five costing methods you can use as a cost accountant in Ketepa Coffee processing company (5 marks)

QUESTION FIVE

- a) State and explain two types of share capital (2 Marks)
- b) Discuss two main methods of issuance of shares you can recommend to a listed company (4 Marks)
- c) Outline two distinctive characteristics of a partnership (2 Marks)

QUESTION SIX

Bwange & Bonge are the owners of a general merchandise shop. The partners have just received the financial accounts for their business for the year ended 31st December 2017 from the accountant as follows.

Income Statement for the year ended 31st December 2017

| | Ksh |
|---------------|----------------------|
| Sales | 400,000 |
| Cost of sales | <u>(300,000)</u> |
| Gross Profit | 100,000 |
| Expenses | <u>(70,000)</u> |
| Net Profit | <u><u>30,000</u></u> |

Statement of Financial Position as at 31st December 2017

| | Ksh. | Ksh. |
|--------------------------------------|-----------------|-----------------------|
| Non-current Assets (net) | 140,000 | |
| Current Assets | | |
| Inventory | 52,000 | |
| Receivables | 15,000 | |
| Cash | <u>100</u> | <u>67,100</u> |
| Total Assets | | <u>207,100</u> |
| Current Liabilities | | |
| Payables | 6,000 | |
| Bank | <u>2,500</u> | 8,500 |
| Capital | | |
| Balance b/d | 200,000 | |
| Net Profit | 18,600 | |
| Drawings | <u>(20,000)</u> | <u>198,600</u> |
| Total Capital and Liabilities | | <u>207,100</u> |

Note: Inventory on 1st January 2017 was valued at Ksh. 48,000. Bwange & Bonge have also obtained comparative information about a competitor for the year ended the same financial period.

Net profit margin 6%

Return on capital 10.50%

Current ratio 4.2:1

Liquid (acid test) ratio 0.3:1
Rate of inventory turnover 4 times

Required:

Calculate for Bwange and Bonge each of the following ratios for the year ended 31st December 2017:

- i. Net profit margin. (2 marks)
- ii. Return on capital employed (using the closing year end value for capital employed) (2 marks)
- iii. Current ratio. (2 marks)
- iv. Liquid (acid test) ratio. (2 marks)
- v. Rate of inventory turnover. (2 marks)

