



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR
BACHELOR OF SCIENCE (INFORMATION TECHNOLOGY)**

SIT412: ACCOUNTING FOR SYSTEM

DATE:

TIME:

INSTRUCTIONS

Answer question ONE and any other TWO questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

a) The books of Mr T, a trader in tea showed the following balances as at 31 March 2019
Shs.

Opening stock of tea	100,000
Purchases – Tea	400,000
Salaries paid	80,000
Buildings	95,000
Cash in hand	2,000
Cash at bank	135,000
Rent, rates and council taxes	15,000
Insurance premium paid	3,000

Miscellaneous receipts	10,000
Sales	720,000
Discounts allowed	4,750
Bad debts	3,250
Building repairs	2,900
Miscellaneous expenses	8,700
Advertisement	20,000
Commission to sales manager	32,400
Furniture and fittings	35,000
Air conditioners	30,000
Sundry debtors	100,000
Sundry creditors	80,000
Loan on mortgage	70,000
Interest paid on the above	3,000
Prepaid expenses	4,000
Drawings	18,000
Bills payable (Current liability)	30,000
Bank charges	2,000
Legal charges	6,000
Motor vehicles	80,000
Travelling and conveyance	10,000
Capital	280,000

The following further information was obtained :

1. Closing stock was Shs.55,000.
2. Legal charges include Shs.5,000 for the cost of stamps and registration of a new building acquired during the year.

3. Purchases include 4000 kg tea valued at Shs.20,000, which was found totally spoilt. An insurance claim of Shs.15,000 has been accepted by the insurance company.
4. Travelling and conveyancing include proprietor's personal travelling for which he is charged Shs.4, 800.
5. The sales manager is entitled to commission of 7.5% of the total sales. However, any bad debts incurred during the year are deductible from such commission entitlements.
6. Debtors include: Shs.10, 000 due from M & C0 (Creditors include Shs.18, 000 due to the same party).
7. Shs.5, 000 due from the sale of furniture.
8. Further bad debts of Shs.2, 000
9. Provision for bad debts is to be created at 2% of net amount outstanding from trade debtors.
10. Depreciation is chargeable as follows:

Buildings	2.5%
Furniture and Fittings	10%
Air conditioners	15%
Motor vehicles	20%
11. Miscellaneous receipts represent sales proceeds of furniture, whose written down value was Shs.12, 000.
12. Prepaid expenses include insurance premiums for the next year.

Required:

- i. Income statement for the year ending 31st March 2019. (10 marks)
- ii. Statement of Financial Position as at 31st March 2019. (10 marks)
- b) Analyze the importance of accounting to Micro and Small enterprise in Kenya. (5 marks)
- c) Evaluate Five importance of taking into consideration depreciation of assets before presentation of final statements. (5 marks)

QUESTION TWO

- a) Accounting software is an integral part of the computerized accounting system'. Assess five benefits and five limitations of outsourcing accounting system to a sole-proprietor operating in Machakos town. (10Marks)
- b) XY Ltd provides for depreciation of its machinery at 20% per annum on cost; it charges for a full year in the year of purchase but no provision is made in the year of sale/disposal.

Financial statements are prepared annually to 31 December.

2015

January 1 Bought machine 'A' Kshs 10,000

July 1 Bought machine 'B' Kshs 6,000

2016

March 31 Bought machine 'C' Kshs 8,000

2017

October 7 Sold machine 'A' – proceeds Kshs 5,500

November 5 Bought machine 'D' Kshs 12,000

2018

February 4 Sold machine 'B' – proceeds Kshs 3,000

February 6 Bought machine 'B' Kshs 9,000

October 11 Exchanged machine 'D' for a motor vehicle valued at Kshs 7,000.

Prepare

- (a) The machinery account for the period 1 January 2015 to 31 December 2018. (2 marks)
- (b) The accumulated provision for depreciation on machinery account, for the period 1 January 2015 to 31 December 2018. (5 Marks)
- (c) The disposal of machinery accounts showing the profit/loss on sale for each year. (3 Marks)

QUESTION THREE (20 MARKS)

The following trial balance was extracted from the books of Mapema Traders Ltd. as at 31 March 2018:

	Sh.	Sh.
Ordinary shares Sh. 10 each		21,000,000
8% Loan stock		3,000,000
Share premium		2,400,000
Trade debtors	9,900,000	
Trade creditors		4,440,000
Purchases and sales	126,600,000	144,000,000
Discounts allowed	150,000	
Discounts received		390,000
Freehold buildings:		
At cost	15,000,000	
Provision for depreciation		1,500,000
Fixtures and fittings:		
At cost	19,200,000	
Provision for depreciation		7,680,000
Stock April 2017	12,600,000	
Returns outwards		2,400,000
Selling and distribution expenses	5,010,000	
Establishment expenses	3,900,000	
Administration expenses	1,680,000	
Bad debts written off	120,000	
Provision for doubtful debts		540,000
Profit and loss account at 1.4.2018		10,860,000
Goodwill	4,800,000	
Bank Overdraft		<u>750 000</u>
	<u>198,960,000</u>	<u>198,960,000</u>

Additional information:

1. The debtors balance includes Sh.600,000 due from Otieno who has now been declared bankrupt and it has been decided to write-off this debt as a bad debt.
2. The provision for doubtful debts is to be adjusted to 5 % of trade debtors at 31 March 2018.
3. Establishment expenses prepaid at 31 March 2018 amount to Sh. 120,000.

The difference is to be written off during the year.

4. Administration expenses accrued due at 31 March 2018 amounted to Sh.210,000.
5. The company paid the interest on the loan stock for the year ended 31 March 2018 on 28 May 2018
7. Depreciation is provided annually on the cost of fixed assets held at the end of the year at the following rates:

Freehold buildings 2 %

Fixtures and fittings 10%

Required:

- a) Income statement for the year ending 31st March 2018. (10 marks)
- b) Financial statement position as at 31st March 2018. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Evaluate five effectiveness of preparing trial balance to a business enterprise. (5 marks)
- b) Mr Chai has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30 April 2017, the end of his most recent financial year.

	Shs
Capital	83,887
Sales	259,870
Trade creditors	19,840
Returns out	13,407
Provision for doubtful debts	512
Discounts allowed	2,306
Discounts received	1,750
Purchases	135,680
Returns inwards	5,624

Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440
Stock as at 1 May 2016	15,654
Trade debtors	24,500
Fixtures and fittings – at cost	120,740
Provision for depreciation on	
Fixtures and fittings – as at 30 April 2017	63,020
Depreciation	12,074

The following additional information as at 30 April 2017 is available: (a) Stock at the close of business was valued at Shs 17,750.

(b) Insurances have been prepaid by Shs 1,120.

(c) Heating and lighting is accrued by Shs 1,360.

(d) Rates have been prepaid by Shs 5,435.

(e) The provision for doubtful debts is to be adjusted so that it is 3% of trade debtors.

Required: Prepare Mr Chai's Trail Balance as at 30th April 2017.

(10 marks)

QUESTION FIVE (20 MARKS)

- (a) Analyze five qualitative characteristics of accounting information and describe how each enhances usefulness of financial information. (10 marks)
- (b) Record the following details relating to a carpet retailer for the month of November 2017

and extract a trial balance as at 30 November 2017: (10 marks)

Nov	1	Started in business with Kshs15,000 in the bank.
	3	Bought goods on credit from: J Small Kshs290; F Brown Kshs1,200; T Rae Kshs610; R Charles Kshs530.
	5	Cash sales Kshs610.
	6	Paid rent by cheque Kshs175.
	7	Paid business rates by cheque Kshs130.
	11	Sold goods on credit to: T Potts Kshs85; J Field Kshs48; T Gray Kshs1,640.
	17	Paid wages by cash Kshs290.
	18	We returned goods to: J Small Kshs18; R Charles Kshs27.
	19	Bought goods on credit from: R Charles Kshs110; T Rae Kshs320; F Jack Kshs165.
	20	Goods were returned to us by: J Field Kshs6; T Potts Kshs14.
	21	Bought van on credit from Turnkey Motors Kshs4,950.
	23	We paid the following by cheque: J Small Kshs272; F Brown Kshs1,200; T Rae Kshs500.
	25	Bought another van, paying by cheque immediately Kshs6,200.
	26	Received a loan of Kshs750 cash from B. Bennet.
	28	Received cheques from: T Potts Kshs71; J Field Kshs42.
	30	Proprietor brings a further Kshs900 into the business, by a payment into the business bank account.