



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

..... YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (INFORMATION TECHNOLOGY)

SIT 412: ACCOUNTING INFORMATION SYSTEM

DATE:

TIME:

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (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) Identify Five users of accounting information and explain why they need it. (5 marks)
- c) Identify and explain five causes of depreciation. (5 marks)

QUESTION TWO (20 MARKS)

- a) Accounting software is an integral part of the computerized accounting system'. Outline and briefly explain the generic considerations before outsourcing accounting software. (5 marks)
- b) Describe the procedure of adding and deleting an employee into the QuickBooks Pro 2016. (5 marks)
- c) The trial balance of Zach Ltd. as at 31 December 2017 was as follows:

	Sh.	Sh.
Share capital		200,000
Purchases and Sales	1,220,000	2,000,000
Debtors and Creditors	400,000	140,000
Profit and loss 1 January 2017		380,000
Sales returns	40,000	
Buildings at cost	800,000	
Plant at cost	1,000,000	
Provision for depreciation:		
Plant		400,000
Buildings		40,000
Purchases returns		80,000
Selling expenses	140,000	
Bank		160,000
10% Bank Loan		600,000
Stock 1 January 2014	300,000	
Provision for bad debts		20,000
Operating expenses	180,000	
Administrative expenses	140,000	
Suspense account		<u>200,000</u>
	<u>4,220,000</u>	<u>4,220,000</u>

Additional information:

1. Stock at 31 December 2017 was Sh.360,000.
2. Sales returns of Sh.20,000 have been entered in the sales day book as if they were sales. When this error was discovered, the debtors account had been corrected but the sales figure was not rectified.
3. A debtor of Sh.20,000 has been declared bankrupt. A general provision is required at 5% of debtors.
4. Rates of Sh.30,000 paid in December covering half year to 31 March 2018 have not been entered in the books.
5. Bank Loan interest has not been paid.
6. Depreciation on plant is at 10% on cost and buildings at 2% on cost.

Required:

- i. Income statement for the year ended 31 December 2017. (5 marks)
- ii. Statement of financial position as at 31 December 2017. (5 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:

- 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.
- The provision for doubtful debts is to be adjusted to 5 % of trade debtors at 31 March 2018.
- Establishment expenses prepaid at 31 March 2018 amount to Sh. 120,000. The difference is to be written off during the year.
- Administration expenses accrued due at 31 March 2018 amounted to Sh.210,000.
- The company paid the interest on the loan stock for the year ended 31 March 2018 on 28 May 2018
- 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:

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

QUESTION FOUR (20 MARKS)

- Explain the meaning of the following errors.
 - Compensating errors. (2 marks)
 - Omission errors. (2 marks)
 - Commission errors. (2 marks)
 - Error of principle. (2 marks)

v. Error of original entry.

(2 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) Identify **five** qualitative characteristics of accounting information and describe how **each** enhances usefulness of financial information. (10 marks)
- b) Source documents are used to capture transaction information. Identify any **Ten** documents and explain the purpose of each. (10 marks)