MACHAKOS UNIVERSITY COLLEGE

SCHOOL OF BUSINESS AND ECONOMICS

DIPLOMA IN ACCOUNTANCY YEAR 3.-----AUDITING

TIME 2HRS.

INSTRUCTIONS

ANSWER ALL QUESTIONS

1.The directors of Wananchi Coffee Export ltd have resolved to introduce an improved computer based accounting system to replace the existing one. Live running of the new system is planned to commence on 1st Dec.2004 and will run parallel with the present computer system for a period of three months thereafter.

Required:

a) Explain why wananchi coffee Exporters ltd should run both the existing and give reasons why you, as the auditor, would wish to be involved at this stage of the development process of the new system. (14marks)

b)On the assumption that the new computer based accounting system will be run as live with effect from 1st December 2004, briefly describe what effects this will have on your audit of the company's accounts for the year ended 31st Dec.2004. (6marks)

2. a)Explain examples of controls to prevent unauthorized changes to data files that you would expect to find in a new computer based accounting system. (12marks)

b) Explain the limits of using Computer Assisted Audit Techniques (CAATs) (8marks)

3. Name four types of audit opinions, which the auditor may express in his report indicating the circumstances under which each can be issued. (20marks)

4. Explain the factors that external Auditors should consider in determining whether the financial statements of a limited company show a true and fair view. (10marks)

MACHAKOS UNIVERSITY COLLEGE

SCHOOL OF BUSINESS AND ECONOMICS

DIPLOMA IN ACCOUNTANCY YEAR 2.-------AUDITING

TIME 2HRS.

INSTRUCTIONS

ANSWER ALL QUESTIONS

1. Explain the objectives of controls in an organization. (10marks)

2. a) Explain the meaning of the control environment . (4marks)

   b) Why is it important to have a positive control environment? (4marks)

   c) Explain the factors that should be reflected in the Control environment. (12marks)

3.No internal control system, however elaborate, can by itself guarantee efficient administration and completeness and accuracy of the records nor can it be prove against fraudulent collusion, especially on the part of those holding positions of authority and trust. Explain. (15marks)

4.a)Explain any five types of internal control systems. (10marks)

   b) Explain a system of internal controls in a petrol station over cash. (15marks)

MACHAKOS UNIVERSITY COLLEGE

SCHOOL OF TOURISM AND HOSPITALITY

DIPLOMA IN FOOD AND BEVERAGE YEAR 3.---PRINCIPLES OF ACCONTS

TIME 2HRS.

INSTRUCTIONS

ANSWER ALL QUESTIONS

1.London co.ltd offered 10,000 sh.1 ordinary shares for sale to public as follows:

Sh.0.25 on application

Sh.0.35 on allotment including share premium

Sh.0.30 on first call

Sh.0.25 on second call.

Applications were received for 10,000 shares, all of whom were approved by the directors and shares allotted. All shareholders paid allotment money and first call but one shareholder who was allotted 100 shares failed to pay second call.

Required:

Show ledger accounts to record the above transactions. 15marks.

2.You have extracted a trial balance and drawn up accounts for the year ended 31stDecember 2006. There was a shortage of sh.700 on the credit side of the trial balance, a suspense account being opened for that amount. During 2007 the following errors made in 2006 were located:

i)sh.55 received from sale of an old office equipment has been entered in the sales account.

ii)Purchases day book has been overcast by sh60.

iii)A private Purchase of sh.115 has been included in the business purchases.

iv)Bank charges sh. 38 entered in the cash book have not been posted to the bank charges account.

v)A sale of goods to Boss sh690 was correctly entered in the sales book but entered in the personal account as sh.960.

Required:

a) Show the requisite journal entries to correct the errors.
b) Write up the suspense account showing the correction of the errors.

15marks.

3.The financial year of Better Trading Company ended on 30th December 2007. You obtain the following information for the financial year:

	Shs.
Sales----------cash	344,890
------credit	268,187
Purchases---cash	14,440
---credit	496,600
Total receipts from debtors	600,570
Total payments to suppliers	503,970
Discounts allowed to all credit customers	5,520
Discounts received from credit suppliers	3,510
Refunds given to cash customers	5,070

Balance in the sales ledger set off against balance in the purchases ledger 70

Bad debts written off	780
Increase in the provision for bad debts	90
Credit notes issued to credit customers	4,140
Credit notes received from credit suppliers	1,480

As at the close of the previous year, debtors and creditors were sh.26,555 and sh.43,450 respectively.

Required:

a)Debtors ledger control account

b)creditors ledger control account. 20marks.

4.The following Receipts and Payments Account was prepared by the Treasurer to a to a sports Club for the year 2010:

	Shs.
Receipts: Subscriptions	2,198

Sale of an old sports kit	560
Donations	632
Payments: Overdraft b/f	124
New sports equipment	1,200
Refreshments	311
Travelling	472
Office expenses	229
Tournament fees	150
Electricity, Telephone & Postage	285
New furniture	600

The following additional information is available:

i)Subscriptions due on 1st Jan.sh.48, on 31st Dec.sh.56.

ii)Subscriptions in advance on 1st Jan.sh.35, on 31st Dec.sh.61.

iii)Book value of sports kit Sold was sh.560

iv)Value of sports kit and equipment on 1st Jan.sh.2,560. Depreciation on this asset is provided at 30%.

v)Unused refreshment items on 31st Dec. was sh.15.

Required:

Prepare: a)Balance sheet on 1st Jan.2010

b)Income and Expenditure account for the year

c)Balance sheet as at 31st Dec.2010 20marks.

MACHAKOS UNIVERSITY COLLEGE

SCHOOL OF TOURISM AND HOSPITALITY

DIPLOMA IN FOOD AND BEVERAGE   YEAR 2.----PRINCIPLES OF ACCOUNTS.

TIME 2HRS.

INSTRUCTIONS

ANSWER ALL QUESTIONS

1. Distinguish between the following terms:

   a)Returns inwards and returns outwards.

   b)Discount allowed and discount received.

   c)Carriage inwards and Carriage outwards.

   d)Capital expenditure and Revenue expenditure.   20mks.

2. Explain the causes of the difference in the balance as shown by the bank statement and the cash book.   15marks

3.The following were from the bank columns of the cash book of Burton:

DR		CASH BOOK	CR
Bal.b/f	2,500	smith	200
sales	300	robert	1,300
William	1,200	sundry expenses	100
black	1,500	david	700
sales	700	wages	300
malthus	600	rent	250
		smith	150
		bal. c/f	3,800
	6,800		6,800

He then received the following statement from the bank;

	DR	CR	BALANCE
	shs	shs	shs
balance b/f			2,500
smith	200		2,300
cash		300	2,600
Robert	1,300		1,300
sundry expenses	100		1,200
William		1,200	2,400
david	700		1,700
black		1,500	3,200
wages	300		2,900
rent	250		2,650
cash		700	3,350
charges	100		3,250
standing order	500		2,750

Required:

i) Update the cash book and show the adjusted cash book balance.

ii)Prepare a bank reconciliation statement. 15marks

4.Smith and Alex are partners sharing profits and losses in the ratio 2:1 respectively. The following trial balance was extracted from their books on 31st Dec.2011:

	DR.	CR.
Stock(1.1.2011)	500,200	
Purchases and Sales	823,600	1,430,000

Returns		30,600	16,000
Wages		257,500	
Discounts		8,500	12,000
Insurance		17,500	
Heating and lighting		38,400	
Salaries		72,400	
Carriage Outwards		27,100	
Office expenses		7,200	
Loan interest		10,000	
Cash in hand		5,500	
Cash at bank		37,000	
Debtors and Creditors		224,800	195,500
Loan from CFC			200,000
Machinery(bought on 1.7.2010)		300,000	
Machinery bought on 1.1.2011		50,000	
Land and buildings		320,000	
Goodwill		30,000	
Capitals: Smith			570,000
Alex			430,000
Current Accounts: Smith			40,000
	Alex	10,000	
Drawings:	Smith	83,200	
	Alex	40,000	
		2,893,500	2,893,500

Additional Information:

a)Stock on 31st Dec 2011 was valued at sh.470,000.

b)On 31st Dec 2011 sh.12,500 owed for wages.

c)Allow 10% P.a depreciation on Machinery at cost.

d)Interest on capitals at 5% and Drawings 10%.

REQUIRED:

a)Trading ,profit and loss and appropriation account for the year ended 31st Dec. 2011.

b)Partners' Current accounts. 20Marks.

MACHAKOS UNIVERSITY COLLEGE

SCHOOL OF BUSINESS AND ECONOMICS

BACHELOR OF COMMERCE YEAR 1 SEMESTER TWO 2014.

BAC101:FUNDAMENTALS OF ACCOUNTING II

TIME 3HRS.

INSTRUCTIONS

ANSWER ALL THE QUESTIONS

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Wages	257,500	
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Insurance	17,500	
Heating and lighting	38,400	
Salaries	72,400	
Carriage Outwards	27,100	
Office expenses	7,200	
Loan interest	10,000	

Cash in hand		5,500	
Cash at bank		37,000	
Debtors and Creditors		224,800	195,500
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REQUIRED:

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b)Partners' Current accounts. 20Marks.

2. London co.ltd offered 10,000 sh.1 ordinary shares for sale to public as follows:

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Sh.0.25 on second call.

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Required:

Show ledger accounts to record the above transactions. 15marks.

3. The following are extracts from the financial statements of SOYA ltd as at 31st March:

	2013	2012
	Shs.000	Shs.000
Non-current assets:		
Land and building	50,400	36,000
Plant and Machinery	17,580	19,050
Investment at cost	10,800	11,250
Goodwill	8,400	8,700
	87,180	75,000
Current assets		
Inventory	30,150	26,100
Trade receivables	18,420	23,400
Short term investments	5,130	2,520
Cash in hand	600	1,290
	54,300	53,310
Total Assets	141,480	128,310

Equity and Liabilities:

Ordinary share capital	54,000	45,000
Share Premium	4,500	2,250
Revaluation reserve	13,500	-
Revenue reserve	18,450	15,750
	90,450	63,000
Non Current liabilities		
14% loan stock	22,500	27,000
Current liabilities		
Trade payables	17,550	15,750
Bank overdraft	7,170	19,620
Proposed dividend	1,350	1,140
Taxation	2,460	1,800
	28,530	38,310
Total equity and liabilities	141,480	128,310

Additional information

i)The income statement extract for the year ended 31st March 2013 is as follows:

	Sh.000	Sh.000
Profit before tax		7,200
Less: Corporation tax		2,700
Profit after tax		4,500
Dividends-Interim	450	
-Proposed	1,350	1,800
Retained earnings		2,700

ii)During the year, plant with a net book value of Sh.2,250,000 was sold for Sh.4,410,000.The plant had originally cost Sh.9,000,000.

iii)Part of the investment was sold during the year at a profit of Sh.480,000.

iv)Depreciation on plant and machinery amounting to Sh.3,450,000 was charged to the income statement during the year.

v)During the year impairment of goodwill was estimated to Sh.1,260,000.

vi)The revaluation reserve relates to freehold land and building.

<u>Required</u>

Statement of cash flow in accordance with the International Accounting Standard (IAS)7. 25 marks.

4.a) Distinguish between a rights issue and a bonus issue. 4marks

b)Explain three categories of ratios. 6marks.