



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF SCIENCE (INFORMATION TECHNOLOGY)

SIT412: ACCOUNTING FOR SYSTEM

DATE: 18/3/2022

TIME: 8.30-10.30 AM

INSTRUCTIONS

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

a) The following trial balance was extracted from the books of Voxy. as at 31 March 2020:

| | Sh. | Sh. |
|-------------------------------------|--------------------|--------------------|
| Ordinary shares Sh. 10 each | | 23,400,000 |
| 8% Loan stock | | 3,000,000 |
| 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 2019 | 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 1.4.2019 | | 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 2020.
3. Establishment expenses prepaid at 31 March 2020 amount to Sh. 120,000. The difference is to be written off during the year.
4. Administration expenses accrued due at 31 March 2020 amounted to Sh.210,000.
5. The company paid the interest on the loan stock for the year ended 31 March 2020 on 28 May 2020
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:

- (i) Income statement for the year ending 31st March 2020. (10 marks)
- (ii) Financial statement position as at 31st March 2020. (10 marks)
- b) Explain the nature of accounting equation. (3 marks)
- c) Explain what is meant by materiality in relation to financial statements and state two factors affecting the assessment of materiality. (4 marks)
- d) Explain three factors that contribute depreciation of non-current assets. (3 marks)

QUESTION TWO (20 MARKS)

- a) Accounting software is an integral part of the computerized accounting system'. Assess five benefits and five limitations of outsourcing accounting system to a partnership operating in Machakos town. (10marks)
- b) Analyze **five** qualitative characteristics of accounting information and describe how **each** enhances usefulness of financial information. (5 marks)
- c) Critic the effectiveness of customized accounting software to business entities. (5 marks)

QUESTION THREE (20 MARKS)

Hall Ltd., which makes up its accounts to 30th June each year, has a fleet of motor lorries. Annual depreciation on motor lorries is calculated at a rate of 25% on the reducing balances, with a full year's depreciation being made in the year of purchase, but no charge in the year of sale. An extract from the company's balance sheet as on 30th June 2017 showed the following:

| | |
|----------------------------------|---------------|
| | Shs |
| Motor Lorries at cost: | 164,900 |
| Less provision for depreciation: | <u>93,382</u> |
| Net book Value: | <u>71,518</u> |

During the year ended 30th June 2017 purchases and sales of lorries were as follows:

| <u>Purchases:</u> | <u>Reg.No</u> | <u>Cost (Shs)</u> |
|-----------------------|---------------|-------------------|
| 2017 | | |
| July 30 th | H11 | 8,500 |
| Oct 1 st | H12 | 7,000 |
| 2018 | | |
| Feb 25 th | H13 | 9,000 |
| June 24 th | H14 | 5,900 |

| <u>Sales:</u> | <u>Reg.No</u> | <u>Purchased on:</u> | <u>Cost (Shs)</u> | <u>Proceeds (Shs)</u> |
|-----------------------|---------------|----------------------------|-------------------|-----------------------|
| 2017 | | | | |
| July 30 th | H1 | 14 th May 2013 | 1,592 | 300 |
| Oct 1 st | H4 | 10 th July 2014 | 2,560 | 850 |
| 2018 | | | | |
| Mar 1 st | H6 | 9 th March 2016 | 8,000 | 4,600 |
| June 25 th | H7 | 21 st Sept 2016 | 3,648 | 2,700 |

Required:

Write up the following accounts in the books of the company for the year ended 30th June 2018:

- a) The Motor lorries account (8 marks)
- b) Motor lorries provision for depreciation account. (6 marks)
- c) Motor lorries disposal account. (6 marks)

QUESTION FOUR (20 MARKS)

Dada Lil, a sole trader has prepared the following balance as at 31 March 2020

| SHS | |
|--------------------|------------|
| Sales | 378,500.00 |
| Discount Received | 2,400.00 |
| Rent Received | 7,500.00 |
| Returns outwards | 7,700.00 |
| Creditors | 18,700.00 |
| Bank Overdraft | 30,000.00 |
| Capital | 287,500.00 |
| Purchases | 261,700.00 |
| Salaries and Wages | 45,700.00 |
| Office expenses | 8,400.00 |

| | |
|----------------------------|------------|
| Insurance premiums | 3,100.00 |
| Electricity | 1,600.00 |
| Stationery | 6,200.00 |
| Advertising | 8,400.00 |
| Telephone | 2,100.00 |
| Business Rates | 7,500.00 |
| Discounts allowed | 600.00 |
| Returns Inwards | 4,100.00 |
| Stocks as at 1 April 2019 | 120,600.00 |
| Warehouse, shop and office | 210,000.00 |
| Fixtures and fittings | 12,800.00 |
| Debtors | 13,000.00 |
| Cash in till | 500.00 |
| Drawings | 26,000.00 |

The following further information was obtained:

- Closing stock was Shs 102,500.00
- Electricity charges accrued Shs 700.00
- Advertising expenses accrued Shs 500.00
- Insurance premiums paid in advance Shs 900.00
- Business rates prepaid Shs 1,500.00

Required:

- i. Prepare a trial balance as at 31 March 2020. (6 marks)
- ii. Income statement for the year ended 31 March 2020. (7 marks)
- iii. Statement of Financial Position as at that date. (7 marks)

QUESTION FIVE (20 MARKS)

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.

Some of these conventions include:

- (a) Substance over form principle.
- (h) The revenue recognition principle.
- (c) The monetary principle.
- (d) The Matching principle.
- (e) The conservatism principle.

Required:

For each of the principles listed above:

- (a) Explain its meaning. (10 marks)
- (b) Justify its use. (5 marks)
- (c) Explain any weaknesses associated with its use. (5 marks)