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**University Examinations 2015/2016**

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF SCIENCE IN INFORMATION TECHNOLOGY

**CCS 3491: ACCOUNTING FINANCE**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Differentiate between
2. Capital expenditure and Revenue expenditure. (2 marks)
3. Real accounts and Nominal accounts. (2 marks)
4. Explain the following accounting concepts:
5. Consistency (2 marks)
6. Accrual Concept. (2 marks)
7. Alan Muriuki owns a sportswear business. The following trial balance was drawn up from his books of account as at 30th September 2013.

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Capital |  | 800,000 |
| Premises | 2,360,000 |  |
| Fixtures | 900,000 |  |
| Motor vehicle at cost | 840,000 |  |
| Provision for depreciation |  |  |
| Fixtures |  | 360,000 |
| Motor vehicle |  | 480,000 |
| Receivable and payables | 100,000 | 60,000 |
| Allowance for doubtful debts |  | 5,000 |
| Stock 1/9/2012 | 940,000 |  |
| Bank |  | 560,000 |
| Sales |  | 5,800,000 |
| Purchases | 2,200,000 |  |
| Wages | 300,000 |  |
| General expenses | 380,000 |  |
| Rent received |  | 260,000 |
| Discount received |  | 20,000 |
| Drawings | 325,000 |  |
|  |  |  |

Additional information:

1. Closing stock of goods for resale S. 510,000
2. Allan Muriuki has let off part of business premises. The occupier owes Alan Muriuki Sh 30,000 for the year ended 30th September 2013.
3. Depreciation is provided on fixtures at 20% per annum on cost. No non-current assets were bought or sold during the year.
4. The allowance for doubtful debts is to be maintained at 2 percent of outstanding receivables.
5. General expenses include prepaid electricity of Sh. 6,000
6. During the year Alan Muriuki paid Sh. 20,000 for a personal holiday to Mombasa. This had been paid through business and entered as a general expense.
7. During the year, Alan Muriuki had withdrawn for his own personal use goods costing Sh. 15,000.

**Required:**

1. Statement of comprehensive income for the year ended 30th September 2013. (12 marks)
2. Statement of financial position as at 30th Septembers 2013. (10 marks)

**QUESTION TWO (20 MARKS)**

1. Explain four types of bookkeeping errors which are not disclosed by a trial balance.

(4 marks)

1. While preparing the annual accounts for Nobel T4raders, Gregorry Kariuki, the accountant realized that the trial balance for the year ended 30 September 2012 had failed to agree. He therefore opened a suspense account where he recorded the difference and proceeded to prepare the final accounts. There was a debit balance of Sh. 186,000.

On investigation by the internal auditor, the following errors were discovered;

1. Purchases day book had been under cast by Sh.20,000
2. Goods bought on credit from a supplier amounting to Sh10,000 had been posted to the supplier’s account as S. 100,000
3. A new machine costing Sh.140, 000 had been posted to the debit of the machinery repairs account.
4. Marting Kagwe, a customer returned goods valued at Sh.20, 000. This transaction was entered in the sales return day book and posted to the debit of the customer’s account.
5. Sales on credit of old furniture and equipment at a book value of Sh.600, 000 had been recorded in the sales day book.
6. An amount of Sh.120, 000 owned by a debtor was omitted in the schedule of receivables.
7. A cash discount allowed of Sh.4, 000 had been correctly entered in the cashbook but had not been posted to the account of Wachera, a customer.
8. Rent and rates treated as having been paid in advance in the previous period amounting to Sh.90,000 had not been brought down in the rent and rates accounts at the start of the year. Instead the amount was included in the prepayments accounts.

**Required:**

1. Journal entries to correct the above errors. (8 marks)
2. Suspense account duly balanced. (4 marks)
3. A statement of corrected net profit given the reported net profit was Sh.80,500 (4 marks)

**QUESTION THREE (20 MARKS)**

1. Briefly explain the reasons for providing depreciation on non-current assets. (8 marks)
2. A business whose financial year ends on 31 December purchased two vans on 1 January 2010 No. 1 for £8,000 and No 2 for £5,000. Another van, No 3, was purchased on 1 July 2010 for £9,000. The first two vans were sold, No 1 for £4,000 on 30 September 2011, and No 2 for £3,500 on 30 June 2012.

The depreciation policy includes the following:

* Depreciation is on the straight line basis, 20 per cent per annum.
* Depreciation is chargeable for a full year in the year of purchase and no depreciation is chargeable in the year of sale or any other mode of disposal.
* No depreciation is chargeable if a machine is bought and disposed within the same year.
* One ledger account is to be maintained for all vans.

Required:

Show the following extracts for the years ended 31 December 2010, 2011 and 2012

1. Vans account (4 marks)
2. Vans disposal account (4 marks)
3. Provision for depreciation on vans account. (4 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the purpose for preparing control accounts. (4 marks)
2. Maduako, a sole trader, keeps his books so that a sales ledger control account and a purchases ledger control account are shown in his general ledger and balanced at the end of the month.

|  |  |
| --- | --- |
| At 1st December, 2014: | Sh. |
| Dr. Balances in the sales ledger | 13,500 |
| Dr. Balances in the purchases ledger | 415 |
| Cr. Balances in the sales ledger | 300 |
| Cr. Balances in the purchases ledger | 12,000 |
| For the month of December, 2014: |  |
| Total credit purchases | 17,500 |
| Total credit sales | 20,000 |
| Sales returns and allowances | 360 |
| Purchases returns and allowances | 200 |
| Cash receive from trade debtors | 7,500 |
| Cheques received from trade debtors | 15,000 |
| Discount received from creditors | 120 |
| Payments made to trade creditors | 16,400 |
| Discounts allowed to trade debtors | 360 |
| Bad debts written-off | 50 |
| Provision for doubtful debts | 200 |
| Bills of exchange accepted by trade debtors of Maduako | 4,300 |
| Sales ledger credit balances transferred to Purchases ledger | 80 |
| Cash purchases | 3,000 |
| Dishonoured bills payable | 130 |
| Dishonoured bills receivables | 150 |
| Cr. Balance in the sales ledger | 195 |
| Dr. Balances in the purchases ledger | 180 |

Required:

1. Sales ledger control account for the year ended 31 December 2014 (8 marks)
2. Purchase ledger control account for the year ended 31 December 2014 (8 marks)

**QUESTION FIVE (20 MARKS)**

1. Describe the accounting information needs of the following two user groups:
2. Employees (2 marks)
3. Government and their agencies (2 marks)
4. Explain possible causes for differences in closing balance of a firm’s cash book and the bank statement. (6 marks)
5. The balance in the cash book of Mr. Chemai as at 31/1/2012 was Sh.120, 000. On the same date, the balance as per the bank statement was Sh.137, 500. On examining the bank statement and the cash book, he following differences were observed:
6. Cheques totaling Sh.100, 000 had been paid into the bank on 31/1/2012 but were not credited by the bank until 1/2/2012.
7. The bank charged a commission of Sh.500 per over the counter withdrawal. During the month, Chemai made 9 OCT withdrawals. No entry has been made in the cash book.
8. A standing order to CIC insurance Sh.3, 000 had been effected by the bank but not entered in the cash book.
9. Interest income amounting to Sh.65, 000 had been credited to the bank account but not entered in the cash book.
10. Cheques totaling Sh.60, 000 paid to a supplier had not been presented to the bank.

Required:

1. Adjusted cash book (6 marks)
2. Bank Reconciliation statement (4 marks)