



THE MOMBASA POLYTECHNIC UNIVERSITY COLLEGE

(A Constituent College of JKUAT)

(A Centre of Excellence)

Faculty of Engineering & Technology

DEPARTMENT COMPUTER SCIENCE & INFORMATION TECHNOLOGY

UNIVERSITY EXAMINATION FOR:

BACHELOR OF SCIENCE IN INFORMATION TECHNOLOGY

HPS 2103: FINANCIAL ACCOUNTING

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2012

TIME ALLOWED: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

This paper consists of **FIVE** questions

Answer question **ONE (COMPULSORY)** and any other **TWO**

This paper consists of **FOUR** printed pages

Question One (Compulsory)

a) Brian is a sole trader. At 30th June 2000, the following balances have been extracted from his books:

	£
Sales	47,600
Purchases	22,850
Office expenses	1,900
Insurance	700
Wages	7,900
Rates	2,800
Heating & Lighting	1,200
Telephone	650
Discounts allowed	1,150
Opening Stock	500
Return inwards	200
Return Outwards	150
Premises	40,000
Plant & Machinery	5,000
Motor ehicles	12,000
Debtors	12,500
Bank balance	7,800
Creditors	3,400
Loan-long term loan	10,000
Capital	60,000
Drawings for the year	4,000
Closing stock	550

Required:

a) A trial balance from the above list of balances **(15 marks)**

b) State clearly how accounting information is beneficial to the following parties:

- (i) Competitors
- (ii) Potential investors
- (iii) Employees
- (iv) Fund suppliers
- (v) Public

(15 marks)

Question Two

If any information in financial statements is to be useful, regard must be held to the following:

- a) Materiality (4 marks)
- b) Comparability (4 marks)
- c) Prudence (4 marks)
- d) Objectivity (4 marks)
- e) Relevance (4 marks)

Required:

Explain the meaning of each of these factors as they apply to financial accounting including in your explanations one example of the application of each of them;

Question Three

Mary balance sheet as at 31st December 2000

	Trial Balance	
	(£)	(£)
Non-current assets		
Premises		25,000
Plant		<u>1,200</u>
		37,000
Current Assets		
Stock	11,000	
Debtors	10,000	
Cash at hand	5,000	
Cash in hand	<u>3,000</u>	
	29,000	
Current liabilities		
Creditors	<u>(12,000)</u>	<u>17,000</u>
		<u>54,000</u>
Capital		34,000
Non-current liabilities		
Loan from bank		<u>20,000</u>
		<u>54,000</u>

During the year to 31st December 2011 the following transactions occurred:

- (i) Mary withdrew a total of £10,000 in cash
- (ii) Stock in trade was bought all on credit for £34,000
- (iii) Sales were made totaling £60,000 of stock in trade which had cost £37,000 of these sales £5,000 were on credit and £9,000 for cash
- (iv) A total of £16,000 drawn from the bank in cash to the cash till
- (v) Electricity for year paid by cheque totaled to £2,000
- (vi) Rates for the year paid by cheques total 1,000
- (vii) Wages for the year all paid in cash totaled to £10,000
- (viii) Sundry expenses all paid in cash totaled £2,000
- (ix) Creditors were paid a total of £36,000 all by cheque
- (x) Debtors paid a total of £54,000 all in cheques
- (xi) The bank charged interest on the load deducting £3,000

Required:

Prepare a revised balance sheet.

(20 marks)

Question Four

Skates drew up the following trial balance as at 30th September 2002. You are required to draft the trading and loss account for the year ended 30th September 2002 and a balance sheet as at that date.

	Dr	Cr
	£	£
Capital		3,095,500
Drawings	842,000	
Cash at bank	311,500	
Cash in hand	29,500	
Debtors	1,230,000	
Creditors		937,000
Stock 30/09/2001	2,391,000	
Motor van	410,000	
Office equipment	625,000	
Sales		1,309,000
Purchases	9,210,000	
Return inwards	55,000	
Carriage inwards	21,500	
Return outwards		307,000
Carriage outwards	30,900	
Motor expenses	163,000	
Rent	297,000	
Telephone Charges	40,500	
Wages and Salaries	1,281,000	
Insurance	49,200	
Office Expenses	137,700	
Sundry expenses	<u>28,400</u>	<u> </u>
	<u>17,513,200</u>	<u>17,153,200</u>

(20 marks)

Question Five

- a) Explain what is meant by materiality in relation to financial statements and state **TWO** factors affecting the assessment of materiality. **(4 marks)**
- b) Explain what makes information in financial statements relevant to users. **(5 marks)**
- c) Two characteristics contributing to reliability are “neutrality” and “prudence”. Explain the meaning of these terms: **(2½ marks)**
- d) Explain how a possible conflict between the above two (in c) could arise and how that conflict should be resolved. **(2½ marks)**

- e) One of the requirements of financial statements is that they should be free from material error. Suggest three safeguards which may exist inside or outside a company to ensure that financial statements are free from material error. **(6 marks)**