



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Engineering & Technology

DEPARTMENT OF COMPUTER SCIENCE & TECHNOLOGY

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF SCIENCE IN INFORMATION TECHNOLOGY

HPS 2103: FINANCIAL ACCOUNTING

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: FEBRUARY 2013

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
This paper consists of Six printed pages
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QUESTION 1 (Compulsory)

The books of Mr. T, a trader in tea shoed the following balances as at 31st March 2008.

	Sh.
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 mortgages	70,000
Interest paid on the above	3,000
Prepaid expenses	4,000
Drawings	18,000
Bill payable (current liabilities)	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:

- Closing stock was sh. 55,000
- Legal charges include shs. 5,000 for the cost of stamps and registration of a new building acquired during the year.
- Purchases include 400kg tea valued at sh. 20,000 which was found totally spoilt. An insurance claim of sh. 15,000 has been accepted by the insurance company.
- Travelling and conveyancing include proprietor's personal travelling for which he is charged sh. 4,800
- 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
- Debtors include:
 - Sh. 10,000 due from M & Co. (creditors include sh. 18,000 due to the same party)
 - Sh. 5,000 due from the sale of furniture.
- Further bad debts of sh. 2,000
- Provision for bad debts is to be created at 2% of net amount outstanding from trade debtors.
- Depreciation is chargeable as follows:

Buildings	2.5%
Furniture	10%
Air conditioner	15%
Motor vehicles	20%
- Miscellaneous receipts represent sales proceeds of furniture, whose written down value is sh. 12,000.
- Prepaid expenses include insurance premium for the next year.

Required:

Prepare a trading, profit and loss account for the year ended 31st March 2008 and balance sheet as at that date. (30 marks)

QUESTION 2

Zack has given you the following information as extracted from his books as 30th September 2009.

Payments	Sh.
Travelling expenses	16,920
Loan repayment on 30/09/2009	60,000
Purchase for cash	48,840
Purchase of a pick up on 30/09/09	18,000
Insurance	9,840
Sundry expenses	43,620
Staff salaries and wages	49,920
Interest on loan	3,600
Creditors	301,560
Personal expenses	21,600
Bank charges	<u>900</u>
	<u>574,800</u>

Receipts	
Balance on 1/8/08	26,280
Rent	37,200
Private savings	30,000
Trade debtors	367,860
Cash sales	<u>128,160</u>
	<u>589,500</u>

The record reveal the following assets and liabilities:

	1/8/08	30/09/09
	Sh.	Sh.
Loan from C & F Ltd	72,000	?
Goods in trade	37,680	44,580
Trade debtors	23,700	24,420
Motor vehicles	?	28,800
Capital	218,280	?
Accrued salaries	5,520	45,000
Trade creditors	47,760	55,800
Insurance prepaid	1,500	2,160
Rent received in advance	2,400	4,080
Premises	210,000	210,000
Office equipment	36,000	31,800

Additional information

- i) Loan interest is 10% p.a.
- ii) Provision for depreciation on old motor vehicles is to be made at 25% p.a.
- iii) Cash discount allowed and received amounted to sh. 7,380 and sh. 8,160 respectively

Required:

- a) Trading, profit and loss accounts for the year ended 30/09/09 **(10 marks)**
- b) Balance sheet as at 30/09/09 **(10 marks)**

QUESTION 3

The following are summarized financial statements of Formidable Wear Ltd. for two years ended 30/09/2003 and 30/09/2004 respectively.

Profit statement for year ended 30/09

	2003	2004
	Sh. '000'	Sh. '000'
Sales	2,400	3,400
Less: Cost of goods sold	<u>1,300</u>	<u>1,900</u>
	1,100	1,500
Less: Trading expenses	<u>470</u>	<u>650</u>
	630	850
Less debenture interest	<u>25</u>	<u>25</u>
Profit before tax	605	825
Less: corporation tax	<u>280</u>	<u>320</u>
	325	505
Less ordinary share dividends	<u>150</u>	<u>175</u>
	<u>175</u>	<u>330</u>

Balance sheet as at 30/09

	2003		2004	
	Sh. '000'	Sh. '000'	Sh. '000'	Sh. '000'
Sources of capital				
Ordinary share capital				
Authorised and issued				
(sh. 20 shares)			500	500
Undistributed profits			360	690
10% debentures			<u>250</u>	<u>150</u>
			<u>1,110</u>	<u>1,340</u>
Use of Capital:				
Fixed assets at cost			1,100	1,400
Less: Depreciation			<u>200</u>	<u>250</u>
			<u>900</u>	<u>1,150</u>
Current assets				
Stocks	440		550	
Debtors	250		380	
Cash	95	<u>785</u>	<u>20</u>	<u>950</u>
		<u>1,685</u>		2,100
Less: Current liabilities				
Creditors	145		200	
Taxation	280		320	
Proposed dividends	150		175	
Bank overdrafts	-	<u>575</u>	65	<u>760</u>
		<u>1,110</u>		<u>1,340</u>

Required:

- a) Calculate the following accounting ratios for 2003 and 2004:
- Current ratio
 - Capital gearing ratio
 - Stock turnover
 - Average collection period.
 - Fixed assets turnover
 - Gross profit margin
 - Total assets turnover
 - Return on net worth
- b) Comment on the current position of Formidable Wear Ltd with the aid of the accounting ratios in (a) above. **(20 marks)**

QUESTION 4

The balance sheet of Prosper Ltd as at 30/06/2004 shows motor vehicle as follows:

Motor vehicles at cost	1,855,500
Less: Depreciation	<u>972,780</u>
Net book value	882,720

Vehicles are depreciated on the straight line basis over a five year life. Depreciation is charged prorata to time in the year of purchase but not charge is made in the year of disposal. The disposal account is written up on the last day of each year.

During 2004 – 2005 . the following vehicle transactions took place

31/08	purchased panel van	sh. 228,000
31/08	purchased rangerover	sh. 351,000
31/01	Purchased delivery van	sh. 150,000

The delivery van was second-hand originally cost sh. 190,000

Sales of vehicles

Date of purchase	Date of sale	Sale price	Original cost
Car 1/7/200	30/09/2000	Sh. 15,000	Sh. 140,000
Pick-up 30/9/2001	31/12/2004	Sh. 27,000	Sh. 120,000
Panel van 1/03/2002	28/02/2005	Sh. 21,000	Sh. 95,000

Required:

Write up the accounts for motor vehicles, provision for depreciation of motor vehicles and motor vehicles disposal.

QUESTION 5

Write brief notes about the following accounting concepts:

- a) The revenue recognition convention (4 marks)
- b) The continuing concern concept (4 marks)
- c) The objectivity principle (4 marks)
- d) The time period concept (4 marks)
- e) The principle conservation (4 marks)