THE MOMBASA POLYTECHNIC UNIVERSITY COLLEGE

(A Constituent College of JKUAT)

(A Centre of Excellence)

Faculty of Engineering & Technology

DEPARTMENT ELECTRICAL & ELECTRONIC ENGINEERING

UNIVERSITY EXAMINATION FOR DEGREE IN BACHELOR OF SCIENCE IN ELECTRICAL & ELECTRONIC ENGINEERING

HRD 2115: ACCOUNTING & FINANCE

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2012

TIME ALLOWED: 2 HOURS
Instructions to Candidates:
Answer question ONE (COMPULSORY) and any other TWO
This paper consists of THREE printed pages

Question One (Compulsory - 30 Marks)

The following transactions relates to Lenin Hardware for the month of January 2012.

Jan 1st Purchased 2000 bags of cement from ABC Ltd on credit at shs 700 each.
Jan 3rd Sold 600 bags of cement to XYZ Ltd at shs 800 each on credit
Jan 6th Bought a motor vehicle at shs 2,000,000 on credit from Motor Ltd
Jan 10th Received shs 400,000 from XYZ Ltd cash.
Jan 12th Returned 13 bags of cement to ABC Ltd
Jan 15th Paid Motor Ltd shs 200,000 cash
Jan 16th Banked shs 200,000
Jan 20th Paid ABC Ltd shs 100,00 by cheque
Jan 22nd Paid Rent shs 10,000 by cheque

Required:

a) Journal entries to record the transactions. (15 marks)
b) Post the entries to the ledger accounts. (10 marks)
c) Extract a trial balance for January 2012. (5 marks)

Question Two (20 Marks)

Explain the following accounting principles.

a) Matching (4 marks)
b) Going concern (4 marks)
c) Realization (4 marks)
d) Prudence (4 marks)
e) Materiality (4 marks)

Question Three (20 Marks)

The following is the extract of the CashBook bank column for Moraa Ltd for the month of January 2012.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal B/d (Opening Balance)</td>
<td>400,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>22,000,000</td>
</tr>
<tr>
<td>Payments</td>
<td>(8,000,000)</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>14,400,000</td>
</tr>
</tbody>
</table>

The following matters have been raised after investigations into the book.

i) Bank charges of shs 100,000 have been omitted from the cash.
ii) Cheques amounting to shs 3,000,000 were drawn but have not been presented for payment.

iii) Cheques for shs 2,400,000 received and deposited into the bank have not been entered by the bank.

iv) Customers paid shs. 2,000,000 by direct transfer and Moraa Ltd is not aware of this.

v) The bank by error debited Moraa Ltd by shs 400,000

Required:
a) Corrected Cashbook (8 marks)
b) Bank reconciliation statement showing the balance as per the bank statement (7 marks)
c) Why would it be necessary to prepare a bank reconciliation? (5 marks)

Question Four (20 Marks)
a) Explain FIVE errors that don’t affect the trial balance. (12 marks)
b) Explain the errors that affect the trial balance. (8 marks)

Question Five (20 Marks)

ABC Ltd has an option of investing in any two projects, Project A and Project B. Both projects require shs 500,000 each and have a life of 4 years. The following are the expected cash flows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow (Project A) (Shs)</th>
<th>Cash Flow (Project B) (Shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>180,000</td>
<td>290,000</td>
</tr>
<tr>
<td>2</td>
<td>240,000</td>
<td>300,000</td>
</tr>
<tr>
<td>3</td>
<td>300,000</td>
<td>240,000</td>
</tr>
<tr>
<td>4</td>
<td>290,000</td>
<td>180,000</td>
</tr>
</tbody>
</table>

The cost of capital (interest rate) is 10% p.a.

Required:
a) Accounting Rate of return for each project. (7 marks)
b) Payback period for each project. (10 marks)
c) Advice the company based on your answer in (b) above. (3 marks)