



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION  
BACHELOR OF COMMERCE

**BAC 4404: INTERMEDIATE ACCOUNTING I**

END OF SEMESTER EXAMINATIONS

**SERIES: APRIL 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Four printed pages***

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**QUESTION 1 (Compulsory)**

- a) Identify the accounting assumption, principle or constraint associated with each of the following statements:
- i) Money is the best way of expressing accounting information.
  - ii) If unsure which accounting method is appropriate, choose the one that understates assets.
  - iii) Assets should not be increased to reflect higher market values.
  - iv) Companies are expected to continue indefinitely.
  - v) Information may be omitted if this would not change the impressions of the user.
  - vi) Bad debts are recognized in the year of the sale rather than when they actually take place.
- (6 marks)**
- b) i) Explain any **FIVE** possible reasons for disparity between the bank statement and the accounting records of a firm.
- (5 marks)**

ii) On November 30<sup>th</sup>, 2011 the cash ledger account for company AA shows a balance of Ksh. 42,000. The bank statement, however shows a balance of Ksh. 50,000. After an examination of the bank statement, the books and the returned checks, the accountant noted the following:

1. Check No. 482 for sh. 12,000 and check no. 491 for sh. 8,000 are still outstanding.
2. A check for sh. 2,000 that was received from Mr. Poor has “bounced”. It has been returned with the bank statement and marked ‘NSF’ for “not sufficient funds”. The check was in payment for services performed by us on account for Mr. Poor.
3. A deposit we made on November 29<sup>th</sup> for sh. 30,000 does not appear on the bank statement.
4. The bank charged us a sh. 100 service fee to handle the NSF check.
5. The bank also charged us a sh. 150 monthly checking account fee.
6. Check no. 474 for sh. 850 was mistakenly charged by the bank for only sh. 580.
7. The bank collected a sh. 20,000 not for us and deposited the proceeds into our account.
8. The checking account earned sh. 300 interest during the month.
9. The bank mistakenly charged us for a check of sh. 320 which we never wrote: It was written by company AB.

**Required:**

- i) Prepare a bank reconciliation statement as at November 30<sup>th</sup> 2011. **(10 marks)**
- ii) Prepare journal entries. **(5 marks)**

c) Explain the following terms:

- i) Restricted cash **(1 mark)**
- ii) Line of credit **(1 mark)**
- iii) Cash equivalent **(1 mark)**
- iv) Bank overdraft **(1 mark)**

**QUESTION 2**

a) XYZ Ltd has the following information regarding its merchandise transactions for 2014

January 1 <sup>st</sup>	Balance		100 units @ sh. 50
March 30 <sup>th</sup>	Purchase		200 units @ sh. 55
April 15 <sup>th</sup>	Sale	125 units	
June 2 <sup>nd</sup>	Purchase		300 units @ sh. 49
August 5 <sup>th</sup>	Sale	250 units	
October 8 <sup>th</sup>	Purchase		275 units @ sh. 63
December 10 <sup>th</sup>	Sale	350 units	

**Required:**

Determine the cost of goods sold and ending inventory balance under

- i) FIFO
  - ii) LIFO
  - iii) Weighted average under the periodic system **(16 marks)**
- b) Distinguish between perpetual system and periodic system for recording inventory. **(4 marks)**

**QUESTION 3**

- a) Explain the following terms:
- i) Depreciation
  - ii) Depletion
  - iii) Amortization
  - iv) Goodwill
  - v) Intangible assets **(10 marks)**
- b) i) Red Corp. purchases a machine for sh. 42,000 on January 1<sup>st</sup>, 2011. The machine has a 4-year life and a salvage value of sh. 2,000.

**Required**

Determine depreciation for each year using SYD. **(4 marks)**

- ii) Assume the same information as in 3 b i) above except that the machine was purchased on October.

**Required:**

Determine the depreciation for each period under SYD. **(6 marks)**

#### QUESTION 4

The following trial balance was extracted from the books of Pesa Mingi Ltd

	<b>Dr.</b>	<b>Cr.</b>
	<b>Ksh.</b>	<b>Ksh.</b>
Cash	200,000	
Machinery	160,000	
Merchandise (Jan. 1)	300,000	
Accounts payable		70,000
Accumulated depreciation		40,000
Capital		440,000
Service fees		80,000
Sales		200,000
Purchases	90,000	
Telephone expense	<u>80,000</u>	
<b>Total</b>	<b><u>830,000</u></b>	<b><u>830,000</u></b>

Adjustment information:

- i) Depreciation for the year is sh. 20,000
- ii) The ending merchandise inventory is sh. 340,000
- iii) Accrued electricity usage is sh. 1,200
- iv) Service fees earned but not yet collected are sh. 20,000

**Required:**

Prepare a worksheet from the above trial balance and adjustment information.

**(20 marks)**

#### QUESTION 5

a) Discuss the main objectives of maintaining a good cash control system in an organization.

**(12 marks)**

b) Explain the following generally accepted accounting principles:

- i) Materiality principle
- ii) Realization principle
- iii) Full disclosure
- iv) Matching principle

**(8 marks)**