



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

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 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

QUESTION 1 (Compulsory)

- a) Kasuku Manufacturing Company sells its products, offering 30 days credit to its customers. Uncollectible amounts are estimated by accruing a monthly charge to bad debts expense equal to 2% of credit sales. At the end of the year, the allowance for uncollectible accounts is adjusted based on an aging of accounts receivables. The company began 2010 with the following balances in its accounts:

Accounts receivable	sh. 305,000
Allowance for uncollectible accounts	(25,500)

During 2010, sales on credit were sh. 1,300,000, cash collections from customers were sh. 1,250,000 and actual write-offs of accounts were sh. 25,000. An aging of accounts receivables at the end of 2010 indicates a required allowance of sh. 30,000.

Required:

- i) Determine the balance in accounts receivable and allowance for uncollectible accounts at the end of 2010. **(10 marks)**
 - ii) Determine bad debt expense for 2010. **(2 marks)**
 - iii) Prepare journal entries for the monthly accrual of bad debts (in summary form), the write-off of receivables and the year end adjusting entry for bad debts. **(6 marks)**
- b) Describe briefly the primary and secondary qualitative characteristics of accounting information. **(6 marks)**
- c) Explain the following terms:
- i) Materiality **(1 mark)**
 - ii) Conservation **(1 mark)**
 - iii) Cost effectiveness **(1 mark)**
 - iv) Cash discount **(1 mark)**
 - v) Trade discount **(1 mark)**
 - vi) Credit line **(1 mark)**

QUESTION 2

Mabati Manufacturing Company maintains a general checking account at the First Community Bank. First Community provides a bank statement and canceled checks one a month. The cut off date is the last day of the month. The bank statement for the month of May is summarized as follows:

Balance, May 1 2012	Sh. 32,120
Deposits	82,140
Checks processed	(78,433)
Service charges	(80)
NSF checks	(2,187)
Note payment collected by bank (includes sh. 120 interest)	<u>1,120</u>
Balance, May 31 st 2012	<u>34,680</u>

The company's general ledger cash account has a balance of sh. 35,276 at the end of May.

A review of the company records and the bank statement reveals the following:

1. Cash receipts not yet deposited totaled sh. 2,965
2. A deposit of sh. 1,020 was made on May 31st that was not credited to the company's account until June.
3. All checks written in April have been processed by the bank checks written on May that had not been processed by the bank total sh. 5,536.
4. A check written for sh. 1,790 was incorrectly recorded by the company as a sh. 790 disbursement. The cheque was for payment to a supplier of raw materials.

Required:

- a) Prepare a bank reconciliation statement or Mabati Manufacturing Company for the month ended 31st May 2012. **(10 marks)**
- b) Explain any **FIVE**, internal controls principles over cash receipts. **(10 marks)**

QUESTION 3

Kizingo Traders began operations on August 1st, 2010. The following transactions took place during the month of August.

- a) Owners invested sh. 50,000 cash in the corporation in exchange of 5,000 shares of common stock.
- b) Equipment is purchased for sh. 20,000 cash.
- c) On the first day of August, sh. 6,000 rent on a building is paid for the month of August and September.
- d) Merchandise inventory costing sh. 38,000 is purchased on account. The company uses the perpetual inventory system.
- e) Sh. 30,000 is borrowed, from a local bank, and a note payable is signed.
- f) Credit sales for the month are sh. 40,000. The cost of merchandise sold is sh. 22,000.
- g) Sh. 15,000 is collected on account from customers.
- h) Sh. 20,000 is paid on account to suppliers of merchandise.
- i) Salaries of sh. 7,000 are paid to employees for August.
- j) A bill for sh. 2,000 is received from the local utility company for the month of August.
- k) Sh. 20,000 cash was loaned to another company, evidenced by a note receivable.
- l) The corporation paid its shareholders a cash dividend of sh. 1,000.

Required:

- i) Prepare a journal entry for each transaction. **(13 marks)**
- ii) Prepare an unadjusted trial balance as of August 31st, 2010. **(7 marks)**

QUESTION 4

- a) On March 29th, 2012, Kwale Energy Corporation purchased the mineral rights to a coal deposit in Mui Kitui County for sh. 2 million. Development costs and the present value of estimated land restoration costs totaled and additional sh. 3.4 million. The company removed 200,000 tons of coal during 2012 and estimated that an additional 1,600,000 tons would be removed over the next 15 month.

Required:

- Compute depletion on the mine for 2012. **(8 marks)**

- b) On October 1st, 2012 Advanced Micro Circuits Company completed the purchase of Zotec Corporation for sh. 200 million. Included in the allocation of the purchase price were the following identifiable intangible assets (sh. in million) along with the allocated amounts and estimated useful lives

Intangible Asset	Allocated amount	Useful life (in years)
Patent	Sh. 10	5
Development technology	Sh. 50	4
Customer list	Sh. 10	2

In addition, sh. 100 million was allocated to tangible assets and sh. 30 million to goodwill. Straight line amortization is used for all purchased intangibles. During 2012, advanced finished work on a software development project. Development costs incurred after technological feasibility was achieved and before the product release date totaled sh. 2 million. The software was available for release to the general public on September 29th, 2012. During the last three years revenue from the sale of the software was sh. 4 million. The company estimates that the software will generate an additional sh. 36 million in revenue over the next 45 months.

Required:

Compute:

- i) Amortization for purchased intangibles. **(8 marks)**
- ii) Amortization for software development costs. **(4 marks)**

QUESTION 5

- a) Discuss the qualitative characteristics of accounting information as outlined in the conceptual framework. **(12 marks)**
- b) Explain the following accounting principles:
 - i) Historical cost
 - ii) Realization
 - iii) Matching
 - iv) Full disclosure **(8 marks)**