

**TECHNICAL UNIVERSITY OF MOMBASA**  
**SCHOOL OF BUSINESS STUDIES**  
**BACHELOR OF BUSINESS ADMINISTRATION, BACHELOR OF COMMERCIAL**  
**(Y2, S1)**  
**BAC 4204: INTERMEDIATE ACCOUNTING 1**  
**END OF SEMESTER EXAMINATIONS**  
**SERIES: MAY 2016**  
**TIME: 2 HOURS**

**INSTRUCTIONS:**

- This paper consists of section A and B
- Section A is Compulsory. Answer any Two questions in section B
- Mobile phones are not allowed into the examination room
- Cheating leads to disqualification
- This paper consists of Two printed pages

### QuestionOne

- (a) Outline the steps in the process of recording financial information.  
( 4 Marks)
- (b) Discuss the Benefits of accounting standards to the Business community.  
(5 Marks)
- (c) Jakaranda Investment Ltd intends to a business in Mwembe Kuku in Mombasa county. They have the option of buying an existing business as a going concern or starting a new business. Below are the realistically estimated profits under each of the options:

Year taken over	existing business to be started Shs.'000'	new business Shs.'000'
1	25,000	3,000
2	23,000	7,000
3	17,000	10,000
4	15,000	11,000
5	12,000	12,000

Required rate of return is 10%

Required:

Using discounted momentum value method determine the value of goodwill . (10Marks)

- (d) The following details were extracted from the stores ledger card of a small manufacturing company during the month of November 2015.

#### Date

- 1 Opening stock - 400 units valued at sh.1600  
4 Received 200 units @sh.5 each  
10 Issued 500 units @sh.12  
16 Received 300 units @sh.6 each  
20 Issued 300 units @sh.14  
24 Received 400 units @sh.7 each  
30 Issued 200 units @sh.15

#### Required:

- (i) Prepare a stores ledger card for the month of November 2015 using FIFO method.  
(ii) Prepare a trading account for the month.

. (11Marks)

## Question Two

A machinery was imported from China on 1<sup>st</sup> January year one at a purchase price of Shs17million. other incidental costs were as follows:

Freight charges	2,000,000
Insurance while in transit	5,000,000
Installation costs	1,500,000
Pre-operational testing costs	400,000
Annual maintenance cost	1,000,000
Staff training on the new machine	100,000

It is expected to last for 5 years and be sold for scrap for sh.2million. Usage over the five years is expected to be:

Year1	200days
Year2	100days
Year3	100days
Year4	150days
Year5	50days

Required:

- (a) Determine the cost of the machine that should be capitalized and record them to the ledger through the journal entries (5 Marks)
- (b) Work out the depreciation to be charged for each of the **FIRST THREE** years under:
  - (i) Straight line method (3marks)
  - (ii) The reducing balance method (using a rate of 20%) (4marks)
  - (iii) The machine hour method ( a day has 20 working hours) (4marks)
  - (iv) The sum-of-the-years digits method (4marks)

## Question Three

- (a) Discuss any Five components of financial accounting regulatory framework. (5 marks)
- (b) The following is a summary of a cash book as presented by George Ltd for the month of September 2015:

	Shs		Shs
Receipts	1,469	Balance b/d	761
Balance c/d	<u>554</u>	Payments	<u>1,262</u>
	<u>2,023</u>		<u>2,023</u>

All receipts are banked and all payments are made by cheque.

On investigation you discover:

- (i) Bank charges of Shs136 entered on the bank statement have not been entered in the cash book.
- (ii) Cheques drawn amounting to Shs267 had not been presented to the bank for payment.

- (iii) Cheques received totalling Shs762 had been entered in the cash book and paid into the bank, but had not been credited by the bank until 3 November.
- (iv) A cheque for Shs22 for sundries had been entered in the ash book as a receipt instead of as a payment.
- (v) A cheque received from K Jones for Shs80 had been returned by the bank and marked 'No funds available'. No adjustment has been made in the cash book.
- (vi) A standing order for a business rates instalment of Shs150 on 30 September had not been entered in the cash book.
- (vii) All dividends received are credited directly to the bank account. During September amounts totalling Shs62 were credited by the bank but no entries were made in the cash book.
- (viii) A cheque drawn for Shs66 for stationery had been incorrectly entered in the cash book as £60.
- (ix) The balance brought forward in the cash book should have been Shs711, not Shs761.

**Required:** Updated cash book

Bank reconciliation statement as at 30 September 2015.

**(10 Marks)**

- (c) Discuss the various categories of assets ( 5 marks)

#### Question Four

Kampuli Corporation manufactures makes and sells video games for personal computers. The unadjusted trial balance as of December 31,2010 appears below .December 31 is the company's Fiscal year end. The company uses the perpetual inventory system.

Account Title	Debits sh	Credits sh
Cash	23,300	
Accounts Receivable	32,500	
Accumulated provision for bad \$ doubtful debts		100
Inventory	65,000	
Equipment	75,000	
Accumulated Depreciation -Equipment		10,000
Accounts Payable		26,000
Wages Payable		3,000
Note Payable		30,000
Capital stock		80,000
Retained Earnings		16,050
Sales Revenue		180,000
Cost of goods sold	95,000	
Wage expense	32,350	
Rent expense	14,000	

Supplies Expense	2,000	
Utility expense	6,000	
	345,150	345,150

**Additional Information**

The equipment was purchased in 2008 and is being depreciated using the straight-line method over an eight -year useful life with no salvage value.

Accrued wages at year -end should be sh. 4,500.

The company provision for doubtful debts estimated at 2% of all year -end accounts receivable

The company borrowed sh. 30,000 on September 1, 2010 at an interest of 10 %.

This interest has not been repaid to date.

Prepaid rent at year -end should be sh. 1,000.

**Required**

- i) Prepare the necessary journals to record the adjusting entries ( 5marks)
- ii) Prepare the adjusted trial balance as at December 31,2010(4marks)
- iii) Prepare and Income statement and balance sheet for the year to December 31, 2010 (11marks)

**Question Five**

- (a) What do you understand by the term expenses and what is the criteria for recognizing them? (3 Marks)
- (b) Describe briefly what is meant by the following characteristics of accounting information;
  - (i) Understandability
  - (ii) Relevance
  - (iii) Reliability
  - (iv) Comparability
  - (v) Consistency (10marks)
- (c) The following information was extracted from the books of a trading company for the month of March 2016.

	Shs.
Sales ledger balance 1 <sup>st</sup> March Dr.	624,200
Cr.	6,420
Receipts from credit customer	663,040
Credit sales	734,380
Interest charged on debtors	300
Debtors cheques dishonoured	6,300
Discount allowed	30,420
Returns inwards	15,640
Bad debts written off	11,160
Sales ledger debit transferred to purchases ledger	2,400

Sales ledger balances 31<sup>st</sup> March 2016 7,920

**Required:**

A sales ledger control account for the month of March 2016

(7 Marks)