

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

Q1a) Describe briefly the primary and secondary qualitative characteristics of accounting information. (6 marks)

b) Explain the internal controls over cash in an organization. (6marks)

c) Explain the following terms. (8marks)

- i) Periodic inventory system
- ii) Perpetual inventory system
- iii) Materiality constraint
- iv) Cost effective constraint

d) Mabati manufacturing company maintains a general checking account at the First community bank. First community provides a bank statement and canceled checks once a month. The cutoff date is the last day of the month. The bank statement for the month of May is summarized as follows:

Balance, May1, 2015.....	sh. 321, 200
Deposits.....	sh. 821, 400
Checks processed.....	sh. (784,330)
Service charges.....	sh. (800)
NSF checks	sh. (21,870)
Note payment collected by bank (includes sh.1200 interest)	<u>sh. 11,200</u>
Balance, May 31,2015.....	<u>Sh. 346,800</u>

The company's general ledger cash account has a balance of sh. 352,760 at the end of May. A review of the company records and the bank statement reveals the following:

- i) Cash receipts not yet deposited totaled sh.29,650
- ii) A deposit of sh.10, 200 was made on May 31 that was not credited to the company's account until June.
- iii) All checks written in April have been processed by the bank. Checks written in May that had not been processed by the bank total sh.55,360
- iv) A check written for sh.17, 900 was incorrectly recorded by the company as a sh.7, 900 disbursement. The check was for payment to supplier of raw materials.

Required

Prepare the bank reconciliation statement as at 31 May, 2015. (10marks)

Q2a) High rise traders began operations on august 1st 2012. 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 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. Sh.20, 000 cash was loaned to another company evidenced by a note receivable.
- k. The corporation paid its shareholders a cash dividend of sh.1, 000.

Required:

- (i) Prepare a journal entry for each transaction. (7marks)
- ii) Prepare an adjusted trial balance as of august 31st 2012. (7marks)

b) Briefly explain the following accounting principles. (6marks)

- i) Historical cost
- ii) Matching
- iii) Realization

Q3a) A lorry bought for a business cost sh.17million. 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	40days

Required:

Work out the depreciation to be charged each year under:

- (i) Straight line method (2marks)
- (ii) The reducing balance method (using a rate of 35%) (4marks)
- (iii) The machine hour method (4marks)
- (iv) The sum-of-the-years digits method (4marks)

b) Briefly explain the following terms. (6marks)

- i) Amortization
- ii) Depletion
- iii) Depreciation
- iv) Goodwill

Q4) Sweet Waters Company began 2014 with an inventory of 10million units of its principal product. These units cost sh.5 each. The following inventory transactions occurred during the first six months of 2014.

Date	Transactions
February 16 th	purchased on account 5million units at a cost of sh.6.50 each
March 25 th	sold on account 8million units at a selling price of sh.12 each
April 30 th	purchased on account 5million units at accost of sh.7each

On June 30th 2014, 12million units were on hand.

Required:

- a. Prepare journal entries to record the above transactions (5marks)
- b. Compute the ending inventory and cost of goods sold, applying each of the following inventory methods.(The company uses periodic inventory system).
 - (i) Average
 - (ii) FIFO
 - (iii) LIFO (15marks)

Q5. a) Describe briefly what is meant by the following characteristics of accounting information.

- (i) Understandability
- (ii) Relevance
- (iii) Reliability
- (iv) Comparability
- (v) Consistency (10marks)

b) Briefly outline the usefulness of the existence of the accounting conceptual framework (5marks)

c) As an accountant discuss the steps you need to apply in the process of ethical awareness and decision making. (5marks)