



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC 4204: INTERMEDIATE ACCOUNTING I

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2 HOURS

DATE: 2016

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE questions. Question One is Compulsory. Answer any other two questions.

Do not write on the question paper.

Question ONE (Compulsory)

- (a) From the following figures calculate the closing inventory in trade that would be shown using (i) FIFO, (ii) LIFO, (iii) AVCO Methods

	Bought	Sold
March	400 @ sh.3000 each	December 420 for sh.4000 each
September	300 @ sh.3200 each	

(5 marks)

- (b) Draw up the trading account parts of the statement of profit or loss for the year showing the gross profits that would have been reported using (i) FIFO, (ii) LIFO, (iii) AVCO Methods from the details in part (a) above.

(5 marks)

- (c) (i) What is the meaning of depreciation? (1 mark)
- (ii) Identify the four factors which cause non-current assets to depreciate. (2 marks)
- (iii) In what way do you think the concept of consistency applies to depreciation? (2 marks)
- (d) (i) Explain why a provision may be made for doubtful debts. (2 marks)
- (ii) Explain the procedure to be followed when a customer whose debt has been written off as bad subsequently pays the amount originally owing. (2 marks)
- (iii) On 1 January 20X4 D. Wanyonyi had debtors of sh.25 million on which he had made an allowance for doubtful debts of 3%.

During 20X4

- Sibuur, who owed D. Wanyonyi sh.1.2 million, was declared bankrupt and a settlement of sh.25 in the sh.100 was made, the balance being treated as a bad debt.
- Other bad debts written-off during the year amounted to sh.2.3million.

On 31 December 30X4 accounts receivable amounted to sh.24.3million but this requires to be adjusted as follows:

- (a) J. Sambu, a debtor owing Sh.600,000, was known to be unable to pay and this amount was to be written off.
- (b) A cheque for sh.200,000 from S. Makosi was returned from the bank unpaid.

D. Wanyonyi maintained his allowance for doubtful debts at 3% of accounts receivable.

Required:

- (1) For the financial year ended 31 December 20X4, show the entries in the following accounts:
- (i) Allowance (Provision) for doubtful debts (4 marks)
- (ii) Bad debts (3 marks)
- (2) What is the effect on net profit of the change in the allowance for doubtful debts? (4 marks)
- (Total = 30 marks)**

Question TWO

a) ABC company ltd has the following assets and liabilities on December 31st 2008.

	Fair market value	Book value
machinery	Sh.200,000	Sh.300,000
building	Sh.700,000	Sh.680,000
Accounts receivable	Sh.100,000	Sh.80,000
Accounts payable	(150,000)	(150,000)

During the past 5 years, ABC company ltd earned a total net income of sh.1, 000,000. This included an extra ordinary gain of sh.70, 000 and an extraordinary loss of sh.90, 000. The industry in which ABC ltd operates has an average annual rate of return on its assets of 18%.

Required:

- i) What is the value of ABC ltd before calculating goodwill? (3marks)
 - ii) What net earnings has ABC ltd averaged over 5years? (3marks)
 - iii) What excess annual net earnings has ABC ltd averaged compared to the rest of the industry? (4marks)
- b) Describe briefly what is meant by the following characteristics of accounting information.
- (i) Understandability
 - (ii) Relevance
 - (iii) Reliability
 - (iv) Comparability
 - (v) Consistency

(10marks)

(Total = 20 marks)

Question THREE

Zam Zam Ltd provides for depreciation of its machinery at 20% per annum on cost, it charges for a full year in the year of purchase but no provision is made in the year of Sale/disposal.

Financial statements are prepared annually to 31 December. The following transactions occurred in the year 20X5, 20X6, 20X7 and 20X8:

20X5	
January 1	Bought machine "A" for sh.10million
July 1	Bought Machine "B" for sh.6 million
20X6	
March 31	Bought Machine ":C" for sh.8 million

20X7	
October 7	Sold machine "A" – proceeds sh.5.5 million
November 5	Bought machine "D" for sh.12million
20X8	
February 4	Sold machine "B" – proceeds sh.3 million
February 6	Bought machine "E" sh.9 million
October 11	Exchanged machine "D" for machinery valued at sh.7 million.

Required:

Prepare the following accounts:

- (a) The machinery account for the period 1 January 20X5 to 31 December 20X8. (5 marks)
 - (b) The accumulated provision for depreciation on machinery account, for the period 1 January 20X5 to 31 December 20X8. (5 marks)
 - (c) The disposal of machinery account showing the profit/loss on sale for each year. (5 marks)
 - (d) The statement of financial position extract for machinery at (i) 31 December 20X7 and 31 December 20X8. (5 marks)
- (Total = 20 marks)**

Question FOUR

- a) The bank statement for Urethane Company for June 30, 2012, indicates a balance of Ksh.9, 143.11. All cash receipts are deposited each evening in a night depository, after banking hours. The accounting records indicate the following summary data for cash receipts and payments for June.

Cash balance as June 1	Ksh.3, 943.50
Total cash receipts for June	28, 971.60
Total amount of checks issued in June	28,388.85

Comparing the bank statement and the accompanying canceled checks and memorandums with the records reveal the following reconciling items.

- a, The bank had collected for Urethane Company Ksh.1,030 on a note left for collection. The face of the note was Ksh.1, 000
- b, A deposit of ksh.1,852.21, representing receipts of June 30, had been made too late to appear on the bank statement.
- c, Checks outstanding totaled Ksh. 5, 265.27

- d, A check drawn for sh. 139 had been incorrectly charged by bank as sh. 157
- e, A check for sh.30 returned with the statement had been recorded in the depositor's records as sh.240. The check was for the payment of an obligation to Avery Equipment Company for the purchase of office supplies on account.
- f, Bank service charge for June amounted to Ksh.18.20

Required:

- i) Prepare a bank reconciliation statement for June (10 marks)
- ii) Journalize the entries that should be made by Urethane Company (2marks)
- iii) Briefly explain any four causes of differences between accounting records and the bank statement. (4marks)
- a) Discuss any four generally accepted accounting principles (4 marks)
- (Total = 20 marks)**

Question FIVE

- (a) There are two ways in which inventory (stocks) may be recorded by a business, the periodic method and the continuous (perpetual) method. Discuss briefly the two methods of recording inventory. (5 marks)
- (b) Auto Supplies Ltd carries one item of inventory which has the following details.

Balance at 1 November 2016	2000 units @ sh.40
Purchased on 5 November 2016	1600 units @ sh.50
Purchased on 9 November 2016	2000 units @ sh.60
Purchased on 23 November 2016	2400 units @ sh.64

During November 4200 units were sold. The business sold 1800 units on 7 November 2016 and 2400 units on 14 November 2016.

The business employs the continuous method of stock recording.

Required:

Determine the cost of sales for the month of November 2016 and the value of closing inventory based on each of the three valuation methods:

- FIFO, LIFO and AVCO. (15 marks)
- (Total = 20 marks)**