



# TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

Department of Accounting & Finance

**UNIVERSITY EXAMINATION FOR:  
BACHELOR OF COMMERCE AND  
BACHELOR OF BUSINESS ADMINISTRATION**

**BAC 4202: INTERMEDIATE ACCOUNTING 1  
END OF SEMESTER EXAMINATION**

**SERIES: AUGUST 2019**

**TIME: 2 HOURS**

**DATE: AUGUST, 2019**

**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.**

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**Question ONE (Compulsory)**

- a) Briefly explain the three main objectives of financial reporting. (6marks)
- b) Illustrate the importance of a conceptual framework to the financial accounting standards board (FASB). (4marks)
- c) Chronologically illustrate the stages of accounting cycle process. (7marks)
- d) Discuss the qualitative characteristics of accounting information. (6marks)
- e) On November 30<sup>th</sup> 2016 the cash account for TUM Traders enterprise shows a balance of sh.4, 200,000. The bank statement, however, shows a balance of sh.5, 000,000. After a close examination of the bank statement the books and returned checks, the account noted the following:
- (i) Check no 482 for sh.1, 200,000 and check no.491 for sh.800, 000 are still outstanding.
  - (ii) A check for sh.200, 000 that was received from Mr. Karisa has “bounced”. It has been returned with the bank statement and marked “NSF” for “not sufficient funds”. This check was in payment for services performed by us on account for Mr. Karisa.
  - (iii) A deposit we made on November 29<sup>th</sup> for sh.3, 000,000 does not appear on the bank statement.
  - (iv) The bank charged us a sh.10, 000 service fee to handle the NSF check.
  - (v) The bank also charged us a sh.15, 000 monthly checking account fee.
  - (vi) Check no. 474 for sh.85,000 was mistakenly charged by the bank for only sh.58,000

- (vii) The bank collected a sh.2, 000,000 note for us and deposited the proceeds into account.
- (viii) The checking account earned sh.30, 000 interest during the month.
- (ix) The bank mistakenly charged us for a check of sh.32, 000 which we never wrote, it was written by another company.

Required:

Bank reconciliation statement for TUM traders for the month ended November 30<sup>th</sup>. (7marks)

### Question TWO

The Vipingo Company Ltd began 2016 with an inventory of 10 million units of its principal product. These units cost Sh.5 each. The following inventory transactions occurred during the first six months of 2016.

Date	Transaction
Jan.15	Purchased, on account, 5 million units at a cost of Sh.6.50 each.
Mar.20	Sold, on account, 8 million units at a selling price of Sh.12 each.
Apr.30	Purchased, on account, 5 million units at a cost of Sh.7 each

On June 30, 2016, 12 million units were on hand.

Required:

- a) Prepare journal entries to record the above transactions. The company uses periodic inventory system. (3 marks)
- b) Compute the cost of ending inventory and cost of goods sold applying each of the following inventory methods: (12 marks)
  - i) Average
  - ii) FIFO
  - iii) LIFO
- c) Compare and contrast Periodic and Perpetual inventory systems. (5 marks)

### Question THREE

A lorry bought for business cost Ksh.1, 700, 000. It is expected to last for five years and then be sold for scrap for Ksh.200, 000. Usage over the five years is expected to be:

Year 1	200 days
Year 2	100 days
Year 3	100 days
Year 4	150 days
Year 5	40 days

Required: Work out the depreciation to be charged each year under:

- i) The straight line method (3marks)
- ii) The reducing balance method (using a rate of 35%) (5marks)
- iii) The machine hour method. (6marks)
- iv) The sum -of -the digits method (6marks)

### Question FOUR

- a) Distinguish the following terms: (8marks)
  - i) Depreciation
  - ii) Depletion

- iii) Amortization
  - iv) Goodwill
- b) On October 1 2006, D Company completed the purchase of E Company for Ksh. 200million. Included in the allocation of the purchase price were the following identifiable intangible assets (in millions), along with the allocated amounts and estimated useful lives:

Intangible assets

Intangible assets	Allocated Amount	Useful life ( in years)
Patent	Ksh.10	5
Development technology	50	4
Customer list	10	2

In addition, Ksh. 100million was allocated to tangible assets and Ksh 30 million to goodwill. Straight-line amortization is used for all purchased intangibles.

During 2006, D company finished work on a software development project. Development costs incurred after technological feasibility was achieved and before the product release date totalled Ksh.2million. The software was available for release to general public on September 29, 2006. During the last three months of the year, revenue from the sale of the soft-ware was Ksh 4 million. The company estimates that the software will generate an additional Ksh.36 million in revenue over the next 45 months.

Required: Compute;

- i) Amortization for purchased intangibles (6marks)
- ii) Amortization for software development costs ( 6marks)

### Question FIVE

- a) Accountants, like others operating in the business world, are faced with many ethical dilemmas, some of which are complex and difficult to resolve. As an accountant of ABC LTD present a sequence of steps that would provide a framework for analyzing ethical issues in your department. (14marks)
- b) Briefly explain the following accounting principles and assumptions. (6marks)
  - i) Historical cost
  - ii) Full disclosure
  - iii) Matching
  - iv) Periodicity
  - v) Economic entity
  - vi) Going concern.