



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: APRIL 2022

TIME: 2 HOURS

DATE: 2022

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)

- Describe the steps involved in the accounting cycle leading to preparation of financial statements. (7marks)
- Explain the basic accounting equation. (3marks)
- Highlight the qualitative characteristics of accounting information. (6marks)
- Mabati Rolling manufacturing company maintains a general checking account at the Kenya Commercial bank. The bank 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, 2019.....	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) sh. 11,200

Balance, May 31, 2019..... Sh. 346,800

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

- a) Prepare the bank reconciliation statement as at 31 May, 2019. (10marks)
- b) Explain any Four causes of discrepancies between the bank statement and the accounting records. (4marks)

Question Two

a) High rise traders began operations on August 1st 2021. 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 2021. (7marks)
- b) Explain the attributes of a good internal system over cash. (6marks)

Question Three

ABC LTD Company began 2020 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 2020.

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 2020, 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 (5marks)
 - (ii) FIFO (5marks)
 - (iii) LIFO (5marks)

Question Four

- a) Briefly explain the following accounting concepts
 - i) Going concern (2marks)
 - ii) Periodicity (2marks)
 - iii) Monetary unit (2marks)
 - iv) Realization principle (2marks)
 - v) Full disclosure principle (2marks)
- b) Highlight the constraints that prevent the achievement of the desired qualitative characteristics of accounting information. (6marks)
- c) Distinguish between the following:
 - i) Cash discount and trade discount (2marks)
 - ii) Cash and Cash equivalents (2marks)

Question Five

- a) Explain the following terms used in accounting.
 - i) Intangible assets (1mark)
 - ii) Amortization (1mark)
 - iii) Depletion. (1mark)
 - iv) Good will (1mark)
 - v) Depreciation (1mark)

- a) Mombasa millers Ltd purchased a fabricating machine on January 1, 2021, at a net cost of sh.130, 000. At the end of its four- year useful life, the company estimates that the machine will have a residual value of sh.30, 000. Mombasa millers also estimate that the machine will run for 25,000 hours during its four year life.

Required:

Compute depreciation for 2018 through 2021 using each of the following methods:

- i) Straight line (3marks)
- ii) Sum -of- the- years'- digits (SYD) (4marks)
- iii) Double declining balance (4marks)
- iv) Units of production (using machine hours) (4marks)

Actual production was as follows;

Year	2018	2019	2020	2021
Machine hours	6,000	8,000	5,000	7,000