MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 200: ACCOUNTING FOR ASSETS

DATE: 25/3/2021 **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY)

a) Describe the nature of the following assets and describe how they are presented in the financial statements.

i. Prepaid telephone expense

ii. Accounts receivable

iii. Copy rights

iv. Trade marks

v. Outstanding rent receivable. (10 marks)

b) Describe the generally accepted accounting principles (GAAPs) stating clearly how they help in preparation of financial statements. (8 marks)

c) State and explain six causes of differences between the bank statement balance and cashbook balance (bank column). (12 marks)

QUESTION TWO (20 MARKS)

a) Peter enterprises provided the following account balances for the year ended 2018:

Accounts receivable Sh.25 000

Provision for bad and doubtful debts Sh.200

Additional information

1. Bad debts written off during the year sh.300.
2. Yearly provision for 2018 is set at 2% of accounts receivables.

Prepare:

i. Bad debts account (2 marks)

ii. Adjusted accounts receivable account. (4 marks)

iii. Provision for bad and doubtful account (4 marks)

b) Describe the ten-item cycle of recording and summarizing accounting information (10 marks)

QUESTION THREE (20 MARKS)

a) Dina manufacturers maintains its stock records under perpetual inventory system. The stores ledger card for material BTM shows the following details for the month of May 2020.

May 2020	**Receipts**	**Issues**
4	500 units at sh. 200	
7	300 units at sh. 220	
9		400 units
12		200 units
15	600 units at sh. 250	
20		300 units
25	200 units at sh. 260	
31		100 units

Prepare stores ledger for material BTM 200 under simple valuation method (10 marks)

b) Gem limited purchased a 10 year, 10%, 4 million bond on 1st January 2017 at 3.5 million; the interest is compounded semi-annually.

Required

Journal entries to record the above transactions in the books of Gem limited during the first year of investment. (10 marks)

QUESTION FOUR (20 MARKS)

a) DG Company banks with Kenya commercial bank. A bank statement received on September 30th 2019 showed a balance of sh.384 000(CR) while the cashbook (bank column) showed a debit balance of sh. 227 600.The following information is also provided:

1. A cheque for sh. 272,000 drawn on 30th September was presented to the bank for payment on 16th October 2019.
2. The cash book balance overstated by sh. 16,000.
3. There was no trace in the cashbook of a standing order for sh. 96,000 paid by the bank on 7th September 2019.
4. The bank had charged sh. 6,400 as commission. The figures had not been posted in the cash book.
5. Backings by DG company were overstated by sh. 6 000.
6. Cash banked on 29th September 2019 sh 43,200 was credited by the bank on 6th October 2019.
7. A cheque Sh. 236,000 banked on 3rd September 2019 had been returned unpaid. However the bank had not notified this transaction.
8. A banking of sh. 320,000 had been erroneously entered in the cash book as shs 32,000.

Required

i. Updated cash book balance (8 marks)

ii. Bank reconciliation statement (4 marks)

b) Identify and state the purpose of any four source documents used in recording financial information. (8 marks)

QUESTION FIVE (20 MARKS)

a) The financial year of Uma stores ends on 31st December. The following information was extracted from the business asset register:

Machine	**purchase date**	**purchase price**
W	1.1.2016	5 million
X	1.7.2018	6 million
Y	30.10.19	8 million
Z	30.06.20	4 Million

Machine X was sold on 31st March 2020 at 4.2 Million.

It's the business policy to charge for depreciation on machinery at 10 % per annum.

Prepare

i. Machinery account (7 marks)

ii. Provision for depreciation on machinery account (7 marks)

b) Describe clearly four causes of depreciation (6 marks)