



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF EDUCATION

BACHELOR OF COMMERCE

BAC 200: ACCOUNTING FOR ASSETS

DATE: 13/8/2021

TIME: 11.00-1.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY)

- a) Assets are presented in the statement of financial position. Describe the nature of the following assets and describe how each is presented in the financial statements.
- i. Machinery
 - ii. Goodwill
 - iii. Prepaid telephone
 - iv. Trade marks
 - v. Interest receivable. (10 marks)
- b) Mary ventures provided the following account balances for the year ended 2019:
- 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. Provision for bad and doubtful debts for year 2019 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)
- c) Describe six qualitative characteristics of financial information as prescribed by the conceptual framework for financial reporting 2018. (10 marks)

QUESTION TWO (20 MARKS)

- a) On 31st October 2018 Minah limited cashbook showed a credit balance of sh.3000 while the bank statement received on the same day showed a credit balance of sh.650. The following differences were identified as follows:
- 1. Cheques drawn; sh. 5000 by Minah limited had not been taken by the suppliers to the bank for payment
 - 2. Cheques received from debtors Sh. 4,000 had been entered in the cashbook only.
 - 3. Bank charges sh. 350 in the bank statement had not been entered in the cash book
 - 4. The payments side of the cash book had been under cast by sh. 100
 - 5. A cheque drawn on deposit account sh. 500 had been shown in the cashbook as drawn in the current account.
 - 6. Dividends received sh. 2,000 directly by the bank had not been entered in the cash book.
 - 7. Minah's interest received directly by the bank sh. 600 was credited in the cash book.
 - 8. A cheque issued to Rose sh.250 was replaced when outdated. It was entered again in the cash book only. Both cheques were included as presented in (i) above.

Required

- i. Updated cash book balance (6 marks)
 - ii. Bank reconciliation statement (4 marks)
- b) Describe the ten-item cycle of recording and summarizing accounting information (10 marks)

QUESTION THREE (20 MARKS)

Assume that KJ company limited acquired a motor vehicle KCA 905 H at a cost of ksh.12,000,000 on Jan 1 2015. On Jan 1, 2016 the company acquired another motor vehicle KCD 106 T at a cost of kshs 9,600,000 and KCA 905 H was disposed off in December 31st 2015 at Ksh 1,000,000. It's the policy of the company to charge depreciation using reducing balance method at the rate of 20 percent and the expected useful life of the motor vehicles being 5yrs.

Required:

- a) Motor vehicle account (5 marks)
- b) Provision for depreciation account (5 marks)
- c) Profit & loss extract (5 marks)
- d) Balance sheet extracts (5 marks)

QUESTION FOUR (20 MARKS)

The browning company began 2013 with Kshs 96,000 of inventory. The cost of beginning inventory is composed of 16,000 units. Purchased for merchandise transactions during year 2013 were as follows

Purchases	Date of purchase	units	total cost
Jan	17	4,000	24,000
March	22	12,000	84,000
Oct	15	<u>12,000</u>	90,000
		28,000	198,000

Sales

Date of sale	units
Jan 10	8,000
April 15	6,000
Nov 20	<u>12,000</u>
	26,000

Required.

Calculate

- a) the value of closing stock using:
 - i. FIFO method (8 marks)
 - ii. LIFO method (8 marks)
- b) The cost of goods sold for each method (4 marks)

QUESTION FIVE (20 MARKS)

a) Lona Company uses allowance method to account for uncollectible. The following is a summary of the company's transactions for the year 2017.

Feb 1. Sold goods on credit to company A. sh.8 000.

March 15. Accepted a 60 day, 12% note for sh. 8 000 from company A on his account.

April 9. Written off sh. 2 500 from company B as uncollectible.

May 14. Received the interest due from company A and a new 90-day, 14% note as a renewal of the loan note.

June 15. Reinstated the account of debtor B, written off on April 9 and received sh.2 500 in full payment.

August 12. Received from company A amount due on its note of May 14.

December 16. Accepted a 60-day, 12% note for sh. 12 000 from company G.

December 31. It is estimated that 3% of credit sales will be uncollectible.

Required:

a) Prepare Journal entries to record the above transactions. (13 marks)

b) Business organizations use techniques to control their cash. Explain clearly how cash is managed under the imprest system. (7 marks)