



# MACHAKOS UNIVERSITY

University Examinations for 2021/2022 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 COMMERCE

BACHELOR OF EDUCATION

**BAC 200: ACCOUNTING FOR ASSETS**

**DATE: 16/12/2021**

**TIME: 8.30-10.30 AM**

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## INSTRUCTIONS:

**Answer Question One and Any Other Two Questions**

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the difference between the following terms as prescribed by the conceptual framework for financial reporting- 2018.
- Assets and liabilities
  - Financial capital and physical capital
  - Fair value and Historical cost (6 marks)
- b) Describe six qualitative characteristics of financial information as prescribed by the conceptual framework for financial reporting 2018. (6 marks)
- c) Identify and explain four reasons for depreciating non-current assets. (8 marks)
- d) The F Company uses the allowance method to account for uncollectible receivables. It had the following transactions during the month of February 2014:
- 05/14 Received 75% of the kshs. 200,000 balance owed by Webb Co., a bankrupt business. Wrote off remainder as uncollectible.
- 06/14 Reinstated the account of Zorn Co., which had been written off in the preceding year as uncollectible. Received kshs 52,250 cash as full payment of Zorn's account.
- 07/14 Wrote off the kshs 25,000 balance owed by Schmich, Inc. which had no assets.

12/1 Based on an analysis of Accounts Receivable, it is determined that kshs115,000 will become uncollectible. The balance in Allowance for Doubtful Accounts on December 31 prior to adjustment is kshs 2,000 credit.

**Required:**

Journalize the transactions

(10 marks)

**QUESTION TWO (20 MARKS)**

The following is the summary of a Cash book for December, 2014.

**Cash Book (Bank Column)**

	<i>Kshs.</i>		<i>Kshs.</i>
<b>Receipts</b>	<b>26,442</b>	<b>Balance b/d</b>	<b>13,698</b>
<b>Balance c/d</b>	<b>9,972</b>	<b>Payments</b>	<b>22,716</b>
	<b>36,414</b>		<b>36,414</b>

All receipts are banked and payments are made by cheques. On investigation the following are observed:

1. Bank charges of Kshs. 2,448 entered in the bank statement have not been entered in cashbook.
2. Cheques drawn amounting to Kshs. 2,806 have not been presented to the bank for payment.
3. Cheques received totaling Kshs. 13,716 have been entered in the cash book and deposited in the bank, but have not been credited by the bank until January, 2015.
4. A cheque for Kshs. 396 has been entered as a receipt in the cash book instead of as payment.
5. A cheque for Kshs. 250 has been debited by the bank in error.
6. A cheque received for Kshs. 1,440 has been returned by the bank and marked "No funds available", no adjustment had been made in the cash book.
7. All dividends receivable is credited directly to the bank account. During December, an amount of Kshs. 1,116 was credited by the bank and no entry is made in the cash book.

8. A cheque drawn for Kshs. 108 has been incorrectly entered in the cash book as Kshs.594.
9. The balance brought forward should have been Kshs. 1,278.
10. The bank statement as on December, 31, 2014 showed an overdraft of Kshs. 20,916.

**You are required to prepare:**

- a) Updated cash book (8 marks)
- b) A bank reconciliation statement as on Dec. 31, 2014. (6 marks)
- c) Define and explain the accounting treatment of the following terms.
  - i. Goodwill (2 marks)
  - ii. Copy rights (2 marks)
  - iii. Franchise (2 marks)

**QUESTION THREE (20 MARKS)**

Mugo T. Company bought motor vehicle KBT 300Z on January 2010 costing ksh.4, 000,000 and KBS 101K on 1<sup>st</sup> October 2011 at a cost of ksh. 5,000,000. The company bought another motor vehicle KBS 240T at a cost of ksh.3,000,000 on 1<sup>st</sup> October 2012. The company also sold KBT300Z at ksh.2,200,000 on the same date. It's the policy of the company to charge 20% depreciation using reducing balance method.

The estimated economic value of the motor vehicles is 5 years. The policy of the company is to charge depreciation on the basis of the fraction of the year.

Prepare the following required accounts up to year 2014

- a) Motor vehicles account (5 marks)
- b) Provision for depreciation account (8 marks)
- c) Profit and loss(income statement) extract (7 marks)

**QUESTION FOUR (20 MARKS)**

On 31<sup>st</sup> December 2016, Big TM company had a closing inventory amounting to

Ksh.112 000,comprising of 800 units. . Purchases for merchandise transactions during the year 2017 were as follows

<b>Purchases</b>	<b>Date of purchase</b>	<b>Units</b>	<b>unit cost (shs)</b>
Jan	8	6 000	16
May	12	4,000	18
Aug.	7	8,000	20
Oct.	5	5,000	22
Dec.	15	7, 000	23

### **Sales**

<b>Date of sale</b>	<b>units</b>
March 5	10,000
May 12	6,000
Oct 5	9,000
Dec 10	5 500
Dec 15	3 000

### **Required.**

- a) Calculate the cost of goods sold under each of the following:
  - i. Weighted average/Average Cost Method (AVCO) method (8 marks)
  - ii. LIFO method (8 marks)
- b) The cost of closing inventory for each method (4 marks)

### **QUESTION FIVE (20 MARKS)**

On 3<sup>rd</sup> January 2014 Dazo enterprises purchased sixty sh.1000, 8% 4-year bonds at 104%, interest payable semi-annually, the financial year ends on 31<sup>st</sup> december

### **Prepare:**

- a) Journal entries to record the bond transactions. (12 marks)
- b) Financial statement extracts during the bond period. (8 marks)