



# **MACHAKOS UNIVERSITY**

**University Examinations for 2022/2023 Academic Year**

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM**

**MANAGEMENT**

**DEPARTMENT OF BUSINESS ADMINISTRATION 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:**

**TIME:**

---

## **INSTRUCTIONS**

**Answer question one and any other two questions**

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

- a) Describe the five elements of financial statements as prescribed by the conceptual framework for financial reporting-2018. (5 marks)
- b) State the nature of the following assets and describe how each is presented in the financial statements.
- i) Franchises (ii) Goodwill iii) Prepaid rent
- iv) Copy rights (v) Interest receivable. (10 marks)
- c) State the difference between the following terms as used when accounting for business transactions:
- i) Physical and financial capital (3 marks)

- ii) Fair value and historical cost (2 marks)
- iii) Recognition and Derecognition of financial statement elements. (2 marks)

- d) In the year 2014, Gabo's business first year of operation, sold merchandise in account for Kshs.24, 000,000. This merchandise costs 60% of the selling price. Industry experience indicates 10% of all sales will be returned. Customers returned shs.1, 560, 000 in sales during 2021, prior to making payment.

Assuming that a perpetual inventory system is used

Prepare journal to record sales and return of merchandise (8 marks)

### QUESTION TWO (20 MARKS)

- (a) Wona manufacturers maintain its stock records under perpetual inventory system. The stores ledger card for material BT shows the following details for the month of July 2021.

#### July 2021

##### Purchases

- 4 700 units at sh. 20  
7 500 units at sh. 22  
9 200 units at sh. 23  
12 300 units at sh. 24  
15 600 units at sh. 25  
25 200 units at sh. 26

##### Sales

- 7 800 units  
12 600 units  
20 700 units  
31 300 units

Prepare stores ledger card for material BT under LIFO valuation method (10 marks)

b) Foka Company's financial year ends on 31<sup>st</sup> December 2018. On 2<sup>nd</sup> November, the company invested in the following trading securities:

600 Company S shares, at sh. 5

400 Company T shares, at sh. 10.

On 5<sup>th</sup> December, the company Sold i) 500 Company S shares at sh.6

ii) 300 Company T shares at sh.9

On 31<sup>st</sup> December Market Prices were: Company S sh. 7

Company T sh. 9.

**Required:**

Prepare journal entries to record the above transactions. (10 marks)

**QUESTION THREE (20 MARKS)**

On 31<sup>st</sup> December 2016, the bank column of Pema cashbook showed a debit balance of Sh. 1, 500, while the bank statement received that day showed a credit balance of Sh. 3, 040. On comparing the two, the following differences were discovered.

1. Dividends of sh. 240 had been paid directly to the bank
2. Bank charges sh. 30
3. An excise tax refund sh. 260 had been received by the bank
4. The bank had not paid cheque drawn in favour of Safaricom sh. 250 and electricity sh. 290.
5. The bank had paid an insurance premium of sh. 200.
6. Cheques amounting to sh. 600 paid into the bank on 31<sup>st</sup> December 2016 were not included in the bank statement.
7. Sh. 1 400 deposited by Pema was credited to another account.

The bank had paid Sh. 70, Pema annual subscription to a business association

**Required**

i) Updated cash book balance (6 marks)

(ii) Bank reconciliation statement (4 marks)

b) Explain the eight-item cycle of recording and summarizing accounting information (10 marks)

#### **QUESTION FOUR (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 2020.

Feb 1. Sold goods on credit to Siro company sh. 18 000.

March 15. Accepted a 60 day, 8% note for sh. 18 000 from Siro company on his account.

April 9. Written off sh. 5 000 from Tima company as uncollectible.

May 14. Received the interest due from Siro Company and a new 90-day, 12% note as a renewal of the matured note.

June 15. Tima Company paid by cheque sh.5 000, the account written off on April 9<sup>th</sup>.

August 12. Received from Siro Company the amount due on its note of May 14.

December 16. Accepted a 60 day, 10% note of sh. 8 000 from Esso Company.

December 31. It is estimated that 5% of credit sales will be uncollectible.

#### **Required:**

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)

### QUESTION FIVE (20 MARKS)

- (a) The financial year of Tela Machines ends on 31<sup>st</sup> December. The following information was extracted from the business asset register:

Machine	purchase date	purchase price
A	1.1.2015	10 million
B	1.7.2017	6 million
C	30.10.18	5 million
D	30.06.19	8 Million

On 31<sup>st</sup> March 2020. Machine B was sold at sh.5 Million.

Machine C was sold at sh.4.8 Million

It's the business policy to charge for depreciation on machinery at 5 % on cost per year, in the year of purchase and none in the year of disposal.

#### Prepare

- (i) Machinery account (8 marks)
- (ii) Provision for depreciation on machinery account (9 marks)
- iii) Asset disposal account (3 marks)