



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT
SCIENCES

SECOND YEAR SECOND SEMESTER EXAMINATION FOR BACHELOR OF
EDUCATION

BAC 200: ACCOUNTING FOR ASSETS

DATE: SCHOOLBASED

TIME:

INSTRUCTIONS.

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY)

- a) "A conceptual framework is a statement of generally accepted theoretical principles which form the frame of reference for a particular field of enquiry". State and explain briefly four benefits of conceptual framework for financial reporting. (6 marks)
- b) Business organizations use their accounts receivables to obtain immediate cash through transfer contracts. Define and describe the nature of each of the following transfer contracts:
- i) Pledging (3 marks)
 - ii) Factoring (3 marks)
- c) Identify and describe the nature of any four intangible assets (4 marks)

- d) State and explain four causes of differences between the bank statement balance and cashbook balance (bank column). (6 marks)
- e) Wemeo company purchased a long- term investment from Voba limited sh. 8, 10 000 common stock on 2nd March 2014.
- On 31st December 2014;
- i) Voba limited declared a dividend of 40 cents per share
 - ii) The market value of the share was sh. 8.50

Required

- (i) Journal entries to record the transaction in books of Wemeo company whose financial year ends on 31st December. (4 marks)
- (ii) Show how the investment would be presented in the financial statements for the year ended 31st December 2014 (4 marks)

QUESTION TWO (20 MARKS)

- (a) On 1st October 2014, Hela company assigned shs 200,000 of its receivables to Shamo commercial bank. The contract provided that the bank would finance 75% of the receivables; with recourse and no notification.
- On 24th October 2014, Hela company collected half of the assigned receivables less 5% pertaining to sales returns and discount allowed and paid Poba bank the first installment. The finance charge for the month was sh. 100.
- On 26th October 2014, the remaining receivables were collected in full except 2% which was written off as uncollectible. Hela paid the last installment, finance charge for the month was sh. 110.

Required:

- The necessary journal entries to record above transactions in the books of Hela company (12 marks)
- b) Describe the procedure involved in recording and summarizing accounting information in financial reports (statements) (8 marks)

QUESTION THREE (20 MARKS)

- a) Pendo manufacturing company maintains its stock records under perpetual inventory system. The stores ledger card for material PKL 4 shows the following details for the month of August 2015.

August 2015

3	Received	500 units at sh. 20 each
7	Received	300 units at sh. 22 each
9	Issued	400 units
12	Issued	200 units
15	Received	600 units at sh. 25 each
20	Issued	300 units
25	Received	200 units at sh. 26 each
31	Issued	100 units

Prepare stores ledger for material PKL4 under last in first out (LIFO) valuation method
(10 marks)

- (b) Lopeo limited purchased a 10 year, 10%, 4 million bonds on 1st January 2012 at 3.5 million the interest is compounded semi-annually.

Required

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

QUESTION FOUR (20 MARKS)

Nice Company banks with Pema commercial bank. A bank statement received on September 30th 2016 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:

- (i) A cheque for sh. 272,000 drawn on 30th September was presented to the bank for payment on 16th October 2016.
- (ii) The cash book balance overstated by sh. 16,000.

- (iii) There was no trace in the cashbook of a standing order for sh. 96,000 paid by the bank on 7th September 2016.
- (iv) The bank had charged sh. 6,400 as commission. The figures had not been posted in the cash book.
- (v) Bankings by Nice company were overstated by sh. 6 000.
- (vi) Cash banked on 29th September 2016 sh 43,200 was credited by the bank on 6th October 2016.
- (vii) A cheque Sh. 236,000 banked on 3rd September 2016 had been returned unpaid. However this transaction had not been notified by the bank.
- (viii) A banking of shs 320,000 had been erroneously entered 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 Rehema Enterprises ends on 31st December. The following information was extracted from the business asset register:

Machine	purchase date	purchase price
A	1.1.2009	5 million
B	1.7.2011	6 million
C	30.10.12	8 million
D	30.06.13	4 Million

Machine B was sold on 31st March 2013 at 4.2 Million.

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

Prepare

- (i) Machinery account (6 marks)
 - (ii) provision for depreciation on machinery account (6 marks)
 - (iii) Machinery disposal account (3 marks)
- (b) State and describe any five qualitative characteristics of useful accounting information.
(5 marks)