MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF EDUCATION

BAC 200: ACCOUNTING FOR ASSETS

DATE: 4/12/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY)

a) Explain the meaning of the following terms as used when accounting for assets.

i) Unrealised gains

ii) Comprehensive income

iii) Trading marketable securities

iv) Notes receivable (8 marks)

b) Explain the following qualitative information characteristics as fundamental to financial reporting. i)Relevance ii)faithful representation (6 marks)

c) ”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 to accountants. (6 marks)

d) At the end of every month Mbotela company limited receives a bank statement ; whose running balance is ever different from company's cash book amount. Describe four causes of differences between the bank statement balance and cashbook balance (bank column). (4 marks)

(e) Explain four reasons for charging depreciation of non-current assets. (6 marks)

QUESTION TWO (20 MARKS)

a) State the four broad accounting principles and describe the significant role played by each principle in providing guidance to accountants when recording, analyzing and reporting financial information. (8 marks)

b) On 1st June 2016, Mambo limited assigned shs 300,000 of its receivables to Fima finance bank. The contract provided that the bank would finance 80% of the receivables; with recourse and no notification.

On 21st June 2016,Mambo limited company collected 75% of the assigned receivables less 3% discount allowed and paid Fima finance the first installment. The finance charge for the month was sh. 450.

On 28th June 2016, the remaining receivables were collected in full except 4% which was written off as uncollectible. Mambo paid the last installment; finance charge for the month was sh. 500.

Required:

Prepare necessary journal entries to record the above transactions in the books of Mambo limited company. (12 marks)

QUESTION THREE (20 MARKS)

(a) Sura Poa manufacturing company maintains its stock records under perpetual inventory system. The stores ledger card for material BM1 4 shows the following details for the month of July 2017.

JULY 2015

3	Purchased	500 units at sh. 200each
7	Purchased	300 units at sh. 220 each
9	Sold	400 units
12	Sold	200 units
15	purchased	600 units at sh. 250 each, sold 300 units
25	Purchased	200 units at sh. 260 each
31	Sold	100 units

Prepare stores ledger for material BM1 under last in first out (LIFO) valuation method (10 marks)

(b) Yamu limited purchased a 10 year, 10%, 5 million bonds on 3rd January 2015 at 4.6 million the interest is compounded semi-annually.

Required

Journal entries to record the above transactions in the books of Yamu limited during the two years of investment. (10 marks)

QUESTION FOUR (20 MARKS)

Able Company banks with ABC commercial bank. A bank statement received on 31st August 2017 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 August was presented to the bank for payment on 16th September 2017.

(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 August 2017.

(iv) The bank had charges identified only in the bank statement sh. 6,400 as commission. The figures had not been posted in the cash book.

(v) Bankings by Able company were overstated by sh. 6 000.

(vi) Cash banked on 30th August 2017 sh 43,200 was credited by the bank on 6th September 2017.

(vii) A cheque Sh. 236,000 banked on 3rd August 2017 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 for Able company for the month of August 2017 (4 marks)

b) Identify any four source documents used when recording financial information in journals stating the purpose of each. (8 marks)

QUESTION FIVE (20 MARKS)

(a) The financial year of Noah Enterprises ends on 31st December. The following information was extracted from the entity's asset register:

Machine	**purchase date**	**purchase price**
M1	1.1.2013	5 million
M2	1.7.2014	6 million
M3	30.10.15	8 million
M4	30.06.16	4 Million

Machine MI was sold on 31st March 2016 at 3 .2 Million.

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

Prepare

(i) Machinery account (2013-2016) (5 marks)

(ii) provision for depreciation on machinery account (2013-2016) (6 marks)

(iii) Machinery disposal account (4 marks)

b) State and describe the nature of any five intangible non-current assets. (5 marks)