MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

APRIL SESSION EXAMINATION FOR BACHELOR OF EDUCATION

BAC 200: ACCOUNTING FOR ASSETS

DATE: SCHOOL BASED **TIME:**

INSTRUCTIONS: answer question one and any other two question

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Qualitative characteristics of accounting information provide assurance of reality of information provided by the reporting entities. State and explain any three characteristics promoting reliability of accounting information.

b) Business organizations use their accounts receivables to obtain immediate cash through transfer contracts. Explain the nature and the difference of the following contracts:

   i. Factoring
   ii. Pledging

c) Describe the nature of the following items in the financial statement, describing how each is presented in the statement of financial position

   i. Unrealized gains on securities
   ii. Goodwill
   iii. Accrued asset
   iv. Deferred revenue

d) The following information was obtained from the books of KIKI Enterprise in respect of item of stock No. Z411 for the month of April 2016

Dates		**Purchases**	**Sales**
April 2016	Price per unit	Unit	Units
5	200	1200	_
8	_	_	1400
12	220	400	_
13	180	1800	_
15	_	_	_
18	_	_	250
23	240	_	1600
25	220	_	2400

Additional information

On 1st April 2016, stock comprised of 600 units valued at shs. 260 per unit

Required

i. Prepare Aprils 2016 stores ledger account using First in first out (FIFO) method (10 marks)

ii. Show the amount of cost of goods sold and the closing stock (2 marks)

QUESTION TWO (20 MARKS)

Zera Company owns several vehicles which were purchased as follows:

Vehicle	date of purchase	cost (shs.)
W	1.1.2013	3 million
X	1.7.2014	2.4 million
Y	31.7.2015	4.2 million
Z	1.5.20116	2.7 million

Notes;

1. Vehicle w was sold on 1st March 2016 for shs.2, 400,000.
2. The Company has adopted a policy of depreciating its vehicle at 20% on straight line basis.
3. Depreciation is not charged in the year of disposal

Prepare;

a) Motor vehicle account

b) Provision for depreciation on motor vehicle account

c) Motor vehicle disposal account

QUESTION THREE (20 MARKS)

On 1st October 2010, Pendo 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 20th October 2010, Pendo Company collected half of the assigned receivables less 5% pertaining to sales returns and discount allowed and paid Shamo bank the first installment. The finance charge for the month was sh. 120.

On 27th October 2010, the remaining receivables were collected in full except 2% which was written off as uncollectible. Pendo paid the last installment; finance charge for the month was sh. 140.

Required:

a) Prepare necessary journal entries to record the above transactions in the books of Pendo Company. (12 marks)

b) Describe the detailed procedure involved in recording and summarizing accounting information (accounting cycle) for a business firm (8 marks)

QUESTION FOUR (20 MARKS)

a) Beta Company banks with Tima commercial bank. A bank statement received on September 30th 2016 showed a balance of shs. 384,000 (CR) while the cashbook (bank column) showed a debit balance of shs. 227,600. The following information is also provided:

1. A cheque for sh. 272,000 drawn on 30th September was presented to the bank for payment on 16th October 2016.
2. The cash book balance overstated by sh. 16,000.
3. There was no trace in the cashbook of a standing order for sh. 96,000 paid by the bank on 7th September 2016.

4. The bank had charged sh. 6,400 as commission. The figures had not been posted in the cash book.
5. Banking by Beta company were overstated by sh. 6,000
6. Cash banked on 29th September 2016 sh 43,200 was credited by the bank on th October 2016.
7. A cheque Sh. 236,000 banked on 3rd September 2016 had been returned unpaid. However this transaction had not been notified by the bank.
8. A banking of shs 320,000 had been erroneously entered the cash book as shs 32,000.

Required

i. Updated cash book balance

ii. Bank reconciliation statement for Beta company for the month of October 2016

(4 marks)

b) Identify any four source documents used when recording financial information stating the purpose of each.

QUESTION FIVE (20 MARKS)

The following accounts receivable balances were obtained from the books of choka enterprise for the years ended 31st December 2014, 2015 and 2016

Financial year	balance (shs)
2014	600,000
2015	1,200,000
2016	720,000

Additional information

1. During the year 2014, 2015 and 2016, debtor owing choka business shs.60,000, shs.120,000 and shs 90,000 respectively were written off because Choka was declared bankrupt.
2. Provision for doubtful accounts as at 31st December 2014, 2015 and 2016 were at 10%
3. On 1st June 2015 a debtor whose debt of shs. 10,000 had been written off in 2014 paid his account by cheque

Required

a) For the years 2014, 2015 and 2016 prepare:

i. Bad debts written off account (4 marks)

ii. Provision for doubtful debts account (4 marks)

iii. Journal entries to record the bad debt recovered. (4 marks)

b) Keli limited purchased a long- term investment from Lima company sh. 8,10 000 common stock on 2nd February 2016.

On 1st December 2016

1. Lima company declared a dividend of 50 cents per share
2. The market value of the share was sh. 8.70

Required

i. Journal entries to record the transactions in books of Keli Limited whose financial year ends on 31st December 2016 (4 marks)

ii. Show how the investment would be presented in the financial statements of Keli Limited for the year ended 31st December 2016. (4 marks)