MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF EDUCATION

BAC 200: ACCOUNTING FOR ASSETS

Date: 1/8/2016 **Time: 2:00 – 4:00 pm**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY)

a) Qualitative characteristics of accounting information provide assurance of reliability of information provided by the reporting entities. State and explain any three characteristics promoting reliability of accounting information. (6 marks)

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

i) Factoring

ii) Pledging (6 marks)

Explain any two differences

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 (6 marks)

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

Date	**Purchases**		**Sales**
April 2016	price per unit	Units	units
5	100	600	-
8	-	-	700
12	110	200	-
13	90	900	-
15	-	-	1000
18	-	-	250
23	120	800	-
25	110	1200	-

Additional information:

On 1st April 2016, stock comprised of 300 units valued at Shs. 130 per unit

Required

i) Prepare April's 2016 stores ledger account using last in first out (LIFO) method (8 marks)

ii) Show the amount of cost of goods sold and the closing stock (4 marks)

QUESTION TWO

a) Zera company owns several vehicles which were purchased as follows:

Vehicle	**Date of purchase**	**Cost (Shs.)**
W	1.1.2012	1 million
X	1.7.2012	800,000
Y	31.7.2013	1.4 million
Z	1.5.2014	900,000

Vehicle **W** was sold on 1st March 2014 for Shs. 800,000. The company has adopted a policy of depreciating its vehicles at 20% on straight line basis.

Depreciation is not charged in the year of disposal.

Prepare:

i)	motor vehicles account	(6 marks)
ii)	provision for depreciation on motor vehicle account	(6 marks)
iii)	motor vehicle disposal account	(3 marks)

b) Accountants have developed a financial reporting framework to help in interpretation and communication of accounting information. Describe the implication of each of the following accounting concepts in preparation of financial statements.

i) Going concern

ii) Accruals concept

iii) Separate entity (6 marks)

QUESTION THREE

a) The following accounts receivable balances were obtained from the books of Shoka Enterprises for the years ended 31st December 2013, 2014 and 2015.

Financial year	Balance (shs)
2013	200,000
2014	400,000
2015	240,000

Additional information:

i) During the years 2013, 2014 and 2015, debtors owing Shoka business Shs. 20,000, Shs. 40,000 and Shs. 30,000 respectively were declared bankrupt and their accounts written off.

ii) Provision for doubtful accounts as at 31st December 2013, 2014 and 2015 were at 10%

iii) On 1st June 2014 a debtor whose debt of Shs. 10,000 had been written off in 2013 paid his account by cheque

Required

For the years 2013, 2014 and 2015 prepare:

i)	Bad debts written off account	(4 marks)
ii)	Provision for doubtful debts account	(5 marks)
iii)	Journal entries to record the bad debt recovered.	(4 marks)

b) The financial reporting framework provides general principles for preparing and presenting financial information to user. Explain four implementation constraints to quality information encountered by the preparers. (6 marks)

QUESTION FOUR

a) Woma company invested in two short-term equity securities on 1st March 2010

Sube company common stock par value sh. 14, 500 shares

Limo company preferred stock, par 50, 1000 shares at shs. 55

November 5 2010. Woma company received a cash dividend of Shs. 1.50 on Limo preferred stock

December 31, 2010.Market prices for the shares were:

Sube company common stock shs. 12.

Limo company preferred stock shs. 55.50

January 29, 2011. Woma Company sold all its short-term investments in equity securities for cash. Sube common stock at shs 13 and Limo Company preferred stock at Shs. 54.50

April 3, 2010. Woma Company purchased short-term investments of 1000 shares from Betta company common stock par value shs. 6.00 at shs. 8.00

December 31, 2011 Betta common stock market value was shs. 8.50

Required:

i) Journal entries to record the above transactions. (8 marks)

ii) Show how the investments were reported in the financial statements for the years 2010 and 2011. (4 marks)

b) Describe the procedures (steps) involved in recording and summarizing accounting information (accounting cycle) up to the preparation of financial statement. (8 marks)

QUESTION FIVE

Stella Limited invested her funds in a five year Portfolio of equity stock on 12th January 2014 as follows:

Company A, 20,000 ordinary stock of shs. 10 par value

Company B, 40,000 10% preference stock of shs.15 par value shs.18 Market value

Company C, 30,000 8% preference stock of shs. 12 par value, shs. 15 market value

On August 2014:Stella received an interim dividend of 50 cents on ordinary stock

On 31st December 2014

i) Received a final dividend of 50 cents per share on the ordinary stock

ii) Received dividends on the preferred stock by cheques from company's B and C

On 31st December 2014, quoted stock prices were

Company A. Ordinary stock shs. 8

Company B. Preferred stock shs. 20

Company C.Preferred stock shs. 18

Prepare:

i) Journal entries to account for the 5 year portfolio of equity securities in the first year (2014) of investment. (12 marks)

ii) An extract presentation of the investment details as would be shown in the:

a) Income statement for the year 31st December 2014. (2 marks)

b) Statement of financial position as at 31st December 2014. (2 marks)

b) State any four causes of differences between cashbook, bank balance and bank statement balance. (4 marks)