

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF EDUCATION (ARTS)

BUST 211: INTERMEDIATE FINANCIAL ACCOUNTING

STREAMS: BED (ARTS) Y4S1

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/12/2017

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Answer Question ONE and any other TWO Questions.
- Do not write on the question paper

QUESTION ONE

- (a) Explain the order of payment of liabilities in an orderly liquidation. [6 Marks]
- (b) Explain various forms of preference capital. [4 Marks]
- (c) A business deals in bulk mass goods. In the month of January, 2016, made the following transactions.

January 1	Bought 150 units at Kshs.11 each
January 3	Bought 120units at Kshs.11.50 each
January 6	Sold 170 units at Ksh.20 each
January 15	Purchased 110 units each at Kshs.12
January 20	Sold 120 units each at Kshs.22
January 25	Purchased 70 units each at Kshs.10
January 30	Sold 75 units at Kshs.22

Required:

Using LIFO method, determine the value of closing stock and the profits arising. [10 Marks]

- (d) A company purchased three motorbikes at cost of Ksh.97000 each in January 1, 2011. She used them for one and half years after which she disposed one at Ksh.60,000. The bikes had an estimated useful life of 5 years with Kshs.10,000 being salvage value for each. The company uses straight line method of depreciation. Show the following accounts.
- (i) Motorbike disposal account [3 Marks]
 - (ii) Income statement extract for first two years [3 Marks]
 - (iii)Balance sheet extract for the first two years [4 Marks]

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QUESTION TWO

- (a) With reference to deferred taxation, explain the terms accounting income and taxable income. [4 Marks]
- (b) A company ABC Ltd purchased a non-current asset in January, 2010 for Kshs.60,00. The asset was depreciated on a straight line basis based on over a 5 year period without salvage value. The capital allowance was as follows

YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Capital Account Rate	40%	40%	20%	0	0
Tax rate	30%	30%	30%	40%	40%

The company made an average profit of Kshs.500,000 every year for the five years.

Required:

- The current and deferred tax of every year. [12 Marks]
- (c) Distinguish between deffered tax liability and deffered tax asset. [4 Marks]

QUESTION THREE

- (a) During the month, they issued 1,000,000 preference share capital of Kshs.30 at Kshs.40. The shares were payable at :
- On application - 10/=
 - On allotment - 20/=
 - On final call -10 /=

All shares were paid for when due except a share holder who held 10,000 and refused to pay call monies. Later the shares were forfeited and never reissued.

Required:

- (i) Record issue of the preference shares. [8 Marks]
 - (ii) A balance sheet extract. [4 Marks]
- (b) An auditor's opinion is necessary before accounts are published. Explain. [3 Marks]
- (c) Explain the term notes to financial statements and their purpose. [5 Marks]

QUESTION FOUR

- (a) Explain the reason for incomplete records. [5 Marks]
- (b) Jim commenced business on 1 April year 1 with 500,000 in the business bank account and a motor vehicle Kshs.300,500 which he transferred to the business. He failed to keep ledger accounts. During the year to 31st March year 2, Jim drew goods which cost Kshs.30,200 for his own personal use and drew cash amounting to Kshs.80,150. At 31st March Year 2, the business assets and liabilities were:

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	Kshs.
Motor car at valuation	200,800
Closing stock at cost	30,195
Rates prepaid	30,060
Wages accrued due	40,070
Cash in hand	19,000
Fixtures (cost Kshs.400,000)	360,000
Debtors	200,180
creditors	50,310
Loan from John (10%)	30,000
Interest on loan accrued due	1,500
Bank overdraft	100,420

Required:

(a) Prepare a Statement of Affairs to show Jim’s Capital at 31st March Year 2. [9 Marks]

(b) Calculate Capital at the start of business using this figure together with his capital at end of the financial year, calculate Jim’s profit for the year ended 31 March Year 2. [6 Marks]

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