

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**RESIT/SPECIAL EXAMINATION**

**SECOND YEAR EXAMINATIONS FOR THE AWARD OF DEGREE OF BACHELOR  
OF PURCHASING AND SUPPLIES AND ENTREPRENEURSHIP AND SMALL  
BUSINESS MANAGEMENT AND COMMERCE**

**BCOM/BBAM 211: INTERMEDIATE ACCOUNTING 1**

**STREAMS: Y2S2**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 12/09/2018**

**8.30 A.M. – 10.30 A.M.**

**INSTRUCTIONS:**

- **Answer question ONE and any other TWO.**

**QUESTION ONE**

- (a) Explain the relevance of prudence in conceptual framework of accounting. (5 marks)
- (b) Reliability is not preciseness in accounting. Evaluate this statement. (3 marks)
- (c) Explain the objectives of financial reporting (4 marks)
- (d) Discuss the control features of cash as an asset in an organization (6 marks)
- (e) The following records of Meru traders limited was for the month of may 2010.

May 1 Balance of 200 units valued at 6000/=

May 10 Sales of 150 units @ 46/=

May 20 Sold 120 units @ 43/=

May 31 Bought 200 units @ 33/=

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Required i) Cost of goods sold

ii) Profit arising

iii) Stock value using FIFO method (8 marks)

(e) PQR Ltd offers to pay Kshs. 6,000,000 to buy off ABC ltd whose asset/liabilities book value are listed below.

Current Assets Kshs. 1050,000

PP&E Kshs. 5000,000

Liabilities Kshs. 2500,000

Equity Kshs. 3,550,000

The new valuation for PP&E has been determined to be Kshs. 3000,000.

Required: (i) Determine the Goodwill.

(ii) Post the accounting entry (4 Marks)

**QUESTION TWO**

(a) Explain the assumption underlying the bamoul model of cash management (5 Marks)

(b) On 31 December 2010, the bank statement of Adrian Company did not agree with the cash book balance of Kshs.10000 (Dr). On checking the cash book with the bank statement, he discovered the following:

(i) Some cheques of Kshs.14400 issued by Adrian were returned by the bank and marked as “wrong signature-refer to drawer”. No entries have been made.

(ii) The following cheques were found to be unpresented on 31 December 2010.

<u>Date</u>	<u>Cheque No.</u>	<u>Amount</u>
2009		Kshs.
Sept 28	1120	88000
Dec 7	1180	4 0000
2010		
Jun 12	1210	10000
Dec 30	1600	70000

(iii) The receipt side of the cash book had been overcast by Kshs.1000;

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- (iv) A sum of Kshs.90000 was deposited to the bank on 30 December 2009 but had not been credited by the bank.
- (v) A cheque of Kshs.5000 received from a customer was mistakenly credited by the bank as Kshs.5000.
- (vi) No entries have been made regarding an autopay item of Kshs.15000 for an electricity bill.
- (vii) A credit transfer of Kshs.19000 from Nellyvile had not been recorded.
- (viii) The bank had wrongly charged overdraft interest of Kshs.9000.
- (ix) The bank balance as at 30 November of Kshs.15000 (Dr) in the cash book was wrongly brought down as Kshs.51000 (Cr).

**REQUIRED:** Updated cash book and Bank reconciliation statement. (15 Marks)

**QUESTION THREE**

(a) Discuss some of the excess costs incurred by a firm as a result of over investing in PP&E

(6 Marks)

(b) At the beginning of the year 2015, the balance sheet of XYZ Ltd showed the following balances (Cost) in respect of PP&E.

Item	Amount (cost)	Acc.Depreciation
Machinery	2,000,000	500,000
Office equipment	1,500,000	600,000
Land	1,000,000	-
Motor vehicles	800,000	200,000

During the year additional motor vehicle and Machinery was acquired for Kshs. 600,000 and Kshs. 900,000 respectively. An office equipment initially purchased for Kshs. 400,000 was sold at Kshs. 200,000 on 30<sup>th</sup> June, 2015. The office equipment had accumulated depreciation of Kshs. 150,000. Land was revalued at Kshs. 1,200,000 during the year. The policy of the company is to use straight line method of depreciation at rate of 10% per annum.

Required: PP&E Movement schedule as at 31<sup>st</sup> June, 2015 (14 Marks)

**QUESTION FOUR.**

**a)** A quarry mining company purchased a land to mine building stones at Kshs. 6,000,000. The cost of land in the price is Kshs.2, 500,000 with the difference being the estimated value of stones. The development costs on the site incurred were Kshs. 100,000 and the land is to be rehabilitated at a cost of Kshs.600, 000. The estimated deposit of stones were 1000,000 feet. The salvage value of the land after mining is Kshs.500,000.

Required: Record the acquisition of natural resource and the depletion for the first year considering they extracted 50,000 feet in the first year. (6 Marks)

**b)** In a new business during the year ended 31 December 2002 the following debts are found to be bad, and are written off on the dates shown:

30 April	Otieno	Kshs1,100
31 August	Norton	Kshs.640
31 October	Alpha	Kshs.120

On 31 December 2002 the schedule of remaining debtors, amounting in total to Kshs.68, 500, is examined, and it is decided to make a provision for doubtful debts of Kshs.2,200.

You are required to show:

- (i) The Bad Debts Account, and the Provision for Doubtful Debts Account.
  - (ii) The charge to the Profit and Loss Account.
  - (ii).The relevant extracts from the Balance Sheet as at 31 dec.2002 (14 marks)
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