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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 18th December, 2020

Time: 11.30am – 1.30pm

KAC 200 - INTERMEDIATE ACCOUNTING 1

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain the purpose of preparing a bank reconciliation statement?
(4 Marks)
- b) The following is the bank statement of Kakamega Retail Traders for the month of October 2018:

| Date 2018 | Particulars | Debit Sh | Credit Sh | Balance Sh |
|-----------|---------------|----------|-----------|------------|
| October 1 | Balance b/d | | | 365,875 |
| 2 | Cheque no. 63 | 31,000 | | 334,875 |
| 2 | Cheque no. 67 | 3,548 | | 400,327 |
| 2 | Cheque no. 65 | 13,000 | | 331,327 |
| 2 | Deposit | | 82,000 | 318,327 |
| 4 | Cheque no. 69 | 6,000 | | 394,327 |
| 4 | Cheque no. 68 | 3,115 | | 391,212 |
| 4 | Cheque no. 64 | 51,000 | | 340,212 |
| 4 | Deposit | | 7,280 | 347,492 |
| 7 | Cheque no. 70 | 7,000 | | 340,492 |
| 7 | Cheque no. 71 | 51,500 | | 288,992 |
| 7 | Deposit | | 36,100 | 325,092 |
| 8 | Cheque no. 66 | 9,000 | | 316,092 |
| 8 | Deposit | | 28,000 | 344,092 |
| 9 | Cheque no. 72 | 1,330 | | 342,762 |
| 9 | Cheque no. 73 | 6,250 | | 336,512 |
| 9 | Deposit | | 51,000 | 387,512 |
| 15 | Cheque no. 74 | 2,800 | | 384,712 |
| 15 | Deposit | | 20,560 | 405,272 |
| 16 | Cheque no. 75 | 65,000 | | 340,272 |
| 16 | Deposit | | 18,014 | 358,286 |
| 17 | Deposit | | 34,500 | 392,786 |
| 19 | Cheque no. 76 | 8,500 | | 384,286 |
| 19 | Deposit | | 42,750 | 427,036 |
| 21 | Cheque no. 79 | 2,410 | | 424,626 |
| 21 | Cheque no. 77 | 12,506 | | 412,120 |

| | | | | |
|----|----------------------------|--------|--------|---------|
| 21 | Cheque no. 78 | 4,000 | | 408,120 |
| 21 | Cheque no. 81 | 6,500 | | 401,620 |
| 21 | Deposit | | 9,000 | 410,620 |
| 23 | Cheque no. 82 | 16,240 | | 394,380 |
| 23 | Deposit | | 63,000 | 457,380 |
| 26 | Cheque no. 84 | 1,500 | | 455,880 |
| 26 | Dividends | | 8,750 | 464,630 |
| 26 | Deposit | | 62,500 | 527,130 |
| 28 | Cheque no. 88 | 35,500 | | 491,630 |
| 28 | Standing order (Insurance) | 10,400 | | 481,230 |
| 28 | Cheque no. 85 | 27,000 | | 454,230 |
| 28 | Cheque no. 87 | 22,500 | | 431,730 |
| 28 | Deposit | | 13,025 | 444,755 |
| 31 | Service charge | 750 | | 444,005 |
| 31 | Deposit | | 28,050 | 472,055 |

The following is the bank column of the cashbook:

| Date 2018 | Particulars | Debit Sh. | Date 2018 | Particulars | Credit Sh. |
|-----------|-------------------|----------------|-----------|---------------|----------------|
| October 1 | Balance b/d | 365,875 | October 1 | Cheque no. 65 | 13,000 |
| 1 | Deposited at bank | 7,280 | 1 | Cheque no. 66 | 9,000 |
| 3 | Deposited at bank | 36,100 | 1 | Cheque no. 67 | 3,548 |
| 5 | | 28,000 | 2 | Cheque no. 68 | 3,115 |
| 8 | | 51,000 | 4 | Cheque no. 69 | 6,000 |
| 10. | | 20,560 | 5 | Cheque no. 70 | 7,000 |
| 15 | | 18,014 | 5 | Cheque no. 71 | 51,500 |
| 15 | | 34,500 | 7 | Cheque no. 72 | 1,330 |
| 17 | | 42,750 | 8 | Cheque no. 73 | 6,250 |
| 19 | | 15,700 | 10 | Cheque no. 74 | 2,800 |
| 19 | | 9,000 | 11 | Cheque no. 75 | 65,000 |
| 22 | | 36,000 | 15 | Cheque no. 76 | 5,800 |
| 24 | | 26,500 | 18 | Cheque no. 77 | 12,506 |
| 27 | | 13,025 | 19 | Cheque no. 78 | 4,000 |
| 28 | | 28,050 | 19 | Cheque no. 79 | 2,410 |
| 29 | | 171,010 | 19 | Cheque no. 80 | 3,860 |
| 31 | | 31,525 | 19 | Cheque no. 81 | 6,500 |
| | | | 22 | Cheque no. 82 | 16,240 |
| | | | 23 | Cheque no. 83 | 15,000 |
| | | | 26 | Cheque no. 84 | 1,500 |
| | | | 28 | Cheque no. 85 | 27,000 |
| | | | 28 | Cheque no. 86 | 10,520 |
| | | | 28 | Cheque no. 87 | 22,500 |
| | | | 28 | Cheque no. 88 | 53,500 |
| | | | 30 | Cheque no. 89 | 2,500 |
| | | | 31 | Cheque no. 90 | 64,529 |
| | | | 31 | Cheque no. 91 | 15,500 |
| | | | 31 | Balance c/d | <u>502,481</u> |
| | | <u>934,889</u> | | | <u>934,889</u> |

Notes:

1. The bank reconciliation on 30 September 2018 showed that one deposit was in transit and two cheques had not yet been presented to the bank.
2. Deposits of Sh.62, 500 and Sh.36, 000 had been entered in the cashbook as Sh.26, 500 and Sh.36, 000 and in the bank statement as Sh.62, 500 and Sh.63, 000 respectively.
3. A cheque from Mkulima for Sh.15, 700 was deposited on 18 October 2018 but was dishonoured and the advice was received on 4 November 2018.
4. Counterfoils for cheques no. 76 and no. 88 showed they had been drawn for Sh.5, 800 and Sh. 35, 500 respectively.

Required:

- i) A correct cashbook balance. (8 Marks)
- ii) A bank reconciliation statement on 31 October 2018. (8 Marks)
- c) Briefly explain the meaning of each of the following accounting concepts, giving in each case, an example of the application of each:
 - i) Materiality (3 Marks)
 - ii) Substance over form (3 Marks)
 - iii) Money measurement (4 Marks)

QUESTION TWO (20 MARKS)

- a) Briefly explain the concept “substance over form” with respect to:
 - i) Motor vehicles acquired on hire purchase. (2 Marks)
 - ii) Leasehold land. (2 Marks)
- b) Photomap Ltd. is a leading manufacturer of digital video disks (DVDs). As part of its modernization programme, the company decided to replace its old machinery with a state of the art machine imported from Denmark. The following expenses were incurred for the purpose in the year ended 30 September 2018:

| | Shs. ‘000’ |
|---|-------------------|
| Catalogue price less cash discount at 10% of the list price | 30,000 |
| Freight and insurance | 7,000 |
| Customs and excise duty | 7,300 |
| Value added tax | 7,100 |
| Installation costs | 2,000 |
| Pre-production testing | 700 |
| Training costs (machine attendant) | 50 |
| Insurance (annual) | 700 |
| Salary paid to machine attendant (annual) | 100 |

Additional information:

1. The old machinery disposed of in the year ended 30 September 2018 for Shs. 1,500,000 had cost the company Shs. 2,000,000 on 1 October 2015. An air conditioner equipment purchased for Shs. 545,000 at the same time with the disposed of machinery was scrapped during the year since it was no longer required.
2. The furniture used by the company was acquired on 1 October 2016 at a cost of Shs. 800,000.
3. The value added tax incurred by the company in respect of the machinery was recovered from the tax authority against output value added tax.
4. Depreciation per annum is provided at the following rates:

| | | |
|-----------|---|-------------------------------|
| Machinery | - | 25% on reducing balance basis |
| Equipment | - | 20% on cost |
| Furniture | - | 15% on cost |

Full year's depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

- i) Ascertain the cost of the new machinery. (3 Marks)
- ii) Disposal accounts. (3 Marks)
- iii) Provision for depreciation accounts. (3 Marks)
- iv) A property, plant and equipment movement schedule for the year ended 30 September 2018. (7 Marks)

QUESTION THREE (20 MARKS)

- a) Briefly explain the importance of a cashflow statement to a business entity. (5 Marks)
- b) Bongo Ltd., a medium sized trading company, closes its books every 31 December. Given below are the comparative statements of financial position of Bongo Ltd. for the years ended 31 March 2017 and 2018.

Statement of Financial position as at 31 March

| | 2018 Sh. '000' | 2017 Sh. '000' |
|--------------------------------|-------------------|-------------------|
| Assets: | | |
| Non-current assets: | | |
| Land and buildings | 95,000 | 55,000 |
| Motor vehicles | 46,000 | 35,000 |
| Furniture and fixtures | <u>25,000</u> | <u>28,000</u> |
| | <u>166,000</u> | <u>118,000</u> |
| Current assets: | | |
| Stocks | 28,000 | 20,000 |
| Debtors | 14,000 | 16,000 |
| Prepayments | 6,000 | 8,000 |
| Bank balance and cash in hand | <u>-</u> | <u>3,000</u> |
| | <u>48,000</u> | <u>47,000</u> |
| Total assets | <u>214,000</u> | <u>165,000</u> |
| Equity and liabilities: | | |
| Capital and reserves: | | |
| Ordinary share capital | 80,000 | 50,000 |
| Share premium | 20,000 | 15,000 |

| | | |
|---------------------------------|----------------|----------------|
| Revaluation reserve | 15,000 | 25,000 |
| Retained profit | <u>18,000</u> | <u>15,000</u> |
| | <u>133,000</u> | <u>105,000</u> |
| Non-current liabilities: | | |
| 10% debentures | 30,000 | 20,000 |
| Bank loan | <u>6,000</u> | <u>10,000</u> |
| | <u>36,000</u> | <u>30,000</u> |
| Current liabilities: | | |
| Trade creditors | 23,000 | 15,000 |
| Interest payable | 9,000 | 6,000 |
| Current tax | 6,000 | 5,000 |
| Bank overdraft | 4,000 | - |
| Proposed dividends | <u>3,000</u> | <u>4,000</u> |
| | <u>45,000</u> | <u>30,000</u> |
| Total equity and liabilities | <u>214,000</u> | <u>165,000</u> |

The following additional information is provided for the year ended 31 March 2018:

1. Land and buildings were revalued upwards by Sh. 10,000,000 during the year. In addition, an acquisition of land and building of Sh. 40,000,000 was made.
2. Depreciation on motor vehicles amounting to Sh. 4,000,000 was provided in the profit and loss account for the year. Motor vehicles having a net book value of sh. 8,000,000 were sold at a profit of Sh. 3,000,000 during the year.
3. Bonus shares of Sh. 20,000,000 were issued as par during the year by utilizing the revaluation reserve Bongo Ltd's ordinary shares have a par value of Sh. 20.
4. Interest expense charged to the profit and loss account for the year amounted to Sh. 8,000,000.
5. During the year, tax amounting to Sh. 6,000,000 was paid.
6. Total dividends for the year (both interim and proposed) amounted to Sh. 5,000,000.
7. The profit after tax for the year amounted to Sh. 8,000,000.

Required;

Cash flow statement (in accordance with the requirements of IAS 7) for the year ended 31 March 2018.
(15 Marks)

QUESTION FOUR (20 MARKS)

a) Explain the following terms:

i) Share premium (2 Marks)

ii) Rights issue (3 Marks)

b) The Wide Trading Company Limited has an authorised capital of Sh.500, 000 divided into 5,000 ordinary shares of Sh.100 each.

On 1 January 2018, the Board of directors decided to issue 4,000 shares at Sh.125 each payable as Sh.50 on application. Sh.50 on allotment (including the Sh.25 premium) and Sh.25 on first and final call. The applications were receivable on 20 January 2018 when allotment was made. The allotment money was receivable by 15 February 2018. The first and final call was made on 15 March 2018 and the call money receivable by 31 March 2018. Applications were received

for 6,000 shares. The directors decided to refund money for 1,000 shares and the other applicants were allotted prorata with the excess money utilised to meet part of the allotment money. The balance of the allotment money was received on the due date. The first and final call was made and the call money received on the due date except for allottees of 200 shares. The 200 shares with calls arrears were forfeited on 10 April 2018 and sold for cash at Sh.85 each on 12 April 2018.

Note: No other transactions took place during the above period.

Required:

- i) Application and Allotment Account, First and Final Call Account, Ordinary Share Capital Account. Share Premium Account, Calls in Arrears Account. Forfeited Shares Account and the bank account. (12 Marks)
- ii) Statement of financial position as at 12 April 2018. (3 Marks)

QUESTION FIVE (20 MARKS)

The following information relates to item P003 stocked by 2000 products Ltd for the month of April 2018:

| | Receipts | Issues | |
|-------------|-----------------|---------------|-----------------------|
| Date | Units | Units | Unit cost (Sh) |
| April 3 | 2,400 | | 18 |
| 4 | | 3,200 | |
| 6 | 2,600 | | 20 |
| 12 | | 2,700 | |
| 14 | 3,000 | | 22 |
| 18 | 2,800 | | 21 |
| 20 | | 2,200 | |
| 22 | 2,600 | | 23 |
| 25 | | 3,800 | |
| 26 | 3,100 | | 24 |
| 27 | 2,500 | | 25 |
| 28 | 3,200 | | 26 |
| 29 | | 6,900 | |

The closing balance for March 2018 was a batch of 3,000 units received at a unit price of Sh 19.

Required:

- a) Stores perpetual inventory record for item P003 for May 2018 under LIFO system of stores issues. (14 Marks)
- b) Closing stock valuation. (6 Marks)