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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
SECOND YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
BUSINESS ADMINISTRATION

Date: 13th December, 2019
Time: 11.00am – 1.00pm

KAC 200: INTERMEDIATE ACCOUNTING I

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The bank statement and cashbook balances should agree, but sometimes these balances may not agree:
Required: Discuss this statement and explain why it is important to prepare a bank reconciliation statement. (8 marks)
- b) On 31 October 2019, the cashbook of Mwea Enterprises Ltd. Showed a debit balance of Sh.1, 710,000. This did not agree with the balance shown in the bank statement.
Upon investigation, the accountant discovered the following errors:
1. A cheque paid to Kindaruma for Sh.306,000 had been entered in the cashbook as Sh.387,000
 2. Cash paid into the bank by a customer for Sh.90,000 had been entered in the cashbook as Sh.81,000
 3. A transfer of Sh.1, 110,000 to Central Savings Bank had not been posted to the cash book.
 4. A receipt of Sh.9, 000 shown in the bank statement had not been posted in the cashbook.
 5. Cheques drawn amounting to Sh.36, 000 had not been paid into the bank.
 6. The cash book balance had been incorrectly brought down at 1 November 2018 as a debit balance of Sh.1,080,000 instead of a debit balance of Sh.990,000
 7. Bank charges of Sh.18, 000 do not appear in the cash book.
 8. A receipt of Sh.810, 000 paid into the bank on 31 October 2019 appeared in the bank statement on 1 November 2019.
 9. A standing order of Sh.27, 000 had not been recorded in the cash book.
 10. A cheque for Sh.45, 000 previously received and paid into the bank had been returned by the customer's bank marked "account closed".
 11. The bank received a direct debit of Sh.90, 000 from an anonymous customer.
 12. Cheques banked had been totalled at Sh.135, 000 instead of Sh.153, 000.
 13. A cheque drawn in favour of Nyaga for Sh.120, 000 had been entered on the debit side of the cashbook.

Required;

- (i) Adjusted cashbook as at 31 October 2019. (6 marks)
- (ii) A bank reconciliation statement as at 31 October 2019. (6 marks)
- c) Citing suitable examples, briefly explain of the following terms:
 - i) Accounting concepts (2 marks)
 - ii) Accounting policies (2 marks)
 - iii) Accounting standards (2 marks)
- d) Explain the accounting treatment that would be applicable in dealing with the following transactions relating to the accounts of Mlachake Ltd. for the year ended 31 December 2018:
 - i) A debtor who owed the company Sh.200, 000 was declared bankrupt on 1 February 2019. 25% of the debt had been recovered when the accounts were approved by the directors on 15 March 2019. (2 marks)
 - ii) Some items of inventory purchased for Sh.300, 000 were damaged in the warehouse during the year. These items were repaired at Sh.50,000 and sold to a customer on 2 February 2019 at 75% of the normal selling price of Sh.400,000. (2 marks)

QUESTION TWO (20 MARKS)

Wananchi Transporters Company Ltd. was incorporated on 1 June 2014 and on the same day bought its first lorry, registration number KA 620, for Sh.4, 536,000. On 3 April 2015, the company bought its second lorry, KA 735 for Sh.2, 740,000. On 3 June 2017, the first lorry, KA 620 was involved in an accident and was completely written off. The insurance company paid the transport company Sh. 1, 350,000 for the loss. On 5 January 2018, the company bought its third lorry, KB 327 for Sh. 3, 780,000. Depreciation on the Lorries was provided at 10 per cent on straight-line basis. The policy of the company is to provide depreciation for the full year for all acquisitions made at any time during the year and to ignore depreciation on any lorry sold or disposed of during the year. All the lorries are insured. The company makes its accounts annually to 31 December. In 2018, the company decided to change its depreciation rate from 10 to 15 per cent on straight line basis for all its lorries still in use retroactively, that is from year of purchase. An adjusting entry will be made in the accounts for the year 2018.

Required:

- a) The Motor Lorries account for years 2014 to 2018. (4 marks)
- b) A schedule of additional depreciation arising from change of depreciation rate, for years 2014 to 2017. (4 marks)
- c) Provision for depreciation account for the same period. (9 marks)
- d) Disposal of Motor Lorries account. (3 marks)

QUESTION THREE (20 MARKS)

Jaguar Traders Ltd. was incorporated on 4 May 2019 with a nominal capital of Sh. 1,000,000 divided into 50,000 ordinary shares of Sh.20 each.

On 5 May 2019, the directors invited interested members of the public to apply for purchase of shares at par. The closing date for application was 15 May 2019. Applications were received for 60,000 ordinary shares and paid in full. The allotment was made on 20 May 2019 and the excess application money refunded.

On 26 May 2019, the directors bought furniture Sh. 150,000, equipment Sh.250, 000 and goods Sh.500, 000. All these were delivered and paid for on the same date.

Required:

- a) Journal entries, including bank to record the above transactions. (6 marks)
- b) Ledger accounts (8 marks)
- c) Statement of financial position as at 26 May 2019 (6 marks)

QUESTION FOUR (20 MARKS)

- a) Briefly explain the objectives and scope of IAS 7 (Cash Flow Statements). (6 marks)
- b) The following are extracts from the financial statements of Wewe Ltd. As at 31 March:

	2019		2018	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
Non-Current assets:				
Goodwill		2,800		2,900
Freehold land and building		16,800		12,000
Plant and machinery (NBV)		5,860		6,350
Investment at cost		<u>3,600</u>		<u>3,750</u>
		29,060		25,000
Current assets:				
Stocks				
Accounts receivable	10,050		8,700	
Investments	6,140		7,800	
Cash at hand and bank	1,710		840	
	<u>200</u>		<u>430</u>	
Current liabilities	<u>18,100</u>		<u>17,770</u>	
Bank overdraft				
Accounts payable	(2,390)		(6,540)	
Proposed dividends	(5,850)		(5,250)	
Taxation	(450)		(380)	
	<u>(820)</u>		<u>(600)</u>	
Net current assets	<u>(9,510)</u>	<u>8,590</u>	<u>(12,770)</u>	<u>5,000</u>
		37,650		30,000
15% debentures		<u>(7,500)</u>		<u>(9,000)</u>
Capital and reserves:		<u>30,150</u>		<u>21,000</u>
Authorised, issued and paid Sh.10				
Ordinary shares				
Share premium				
Revaluation reserve		18,000		15,000
Retained profit		1,500		750
		4,500		-
		<u>6,150</u>		<u>5,250</u>

		<u>30,150</u>		<u>21,000</u>
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The profit and loss appropriation account for the year ended 31 March 2019 is given below:

	Sh.'000'	Sh.'000'
Net profit before tax		2,400
Less: Corporation tax		<u>900</u>
Profit after tax		1,500
Dividends:		
Interim (paid)	150	
Proposed (paid)	<u>450</u>	<u>600</u>
		<u>900</u>

The following additional information is provided:

- Profit for the year is arrived at after charging:

	Sh.'000'
Depreciation on plant and machinery	1,150
Goodwill amortization	420

- During the year, plant with a net book value of Sh.750, 000 was sold for Sh.1,470,000. The plant had originally cost Sh.3, 000,000.
- The investments portfolio was reduced by selling one block of shares at a profit of sh.160,000.

Required: Cash flow statement in accordance with IAS 7.

(14 marks)

QUESTION FIVE (20 MARKS)

The following information relates to item P003 stocked by 2019 products Ltd for the month of April 2019:

Date	Receipts	Issues	Unit cost (Sh)
	Units	Units	
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 2019 was a batch of 3,000 units received at a unit price of Sh 19.

Required:

- Stores perpetual inventory record for item P003 for May 2019 under LIFO system of stores issues. (14 marks)
- Closing stock valuation. (6 marks)