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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: 9th August, 2019
Time: 2.00 – 4.00pm

KAC 200 - INTERMEDIATE ACCOUNTING 1

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: Discuss this statement and explain why it is important to prepare a bank reconciliation statement. **(6 marks)**
- b) On 31 October 2018, 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 cashbook.
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 2017 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 cashbook.
8. A receipt of Sh.810, 000 paid into the bank on 31 October 2018 appeared in the bank statement on 1 November 2018.
9. A standing order of Sh.27, 000 had not been recorded in the cashbook.
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 2018. **(6 marks)**
- (ii) A bank reconciliation statement as at 31 October 2018. **(6 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 **(4 marks)**
 - ii. Substance over form **(4 marks)**
 - iii. Money measurement **(4 marks)**

QUESTION TWO (20 MARKS)

Meza Ltd has an authorized share capital of Sh.20, 000,000 divided into 1,500,000 ordinary shares of Sh.10 each and 250,000 8% preference shares of Sh.20 each.

An extract of the statement of financial position as at 30 June 2018 was as follows:

		Sh.'000		Sh.'000
Fixed assets		7,040	Equity	
Current assets			500,000 ordinary shares of	
Stock	2,300		Sh.10 par value	5,000
Debtors	980		250,000 8 % preference shares	
Bank balance	<u>530</u>		of Sh.20 par value	5,000
	3,810		Share premium	300
Creditors	<u>(550)</u>	3,260		
		<u>10,300</u>		<u>10,300</u>

On 1 July 2018, the company offered 500,000 ordinary shares for sale to the public at Sh.15 each payable as follows:

- i. On application Sh.7 including the premium
- ii. On allotment Sh.5
- iii. On first and final call, Sh.3

Applications were received on 15 July 2018 and allotment made on 31 July 2018. The allotment money was received on 15 August 2018. The first and final call was made on 15 September 2018 and the money received on 30 September 2018.

The company received applications for 650,000 shares. Applications for 25,000 shares were rejected and the application money was refunded. The shares were then allocated to the remaining applicants on a pro rata basis, the excess of the application money being carried forward in part satisfaction of the amounts due on allotment.

An allottee of 3,000 shares failed to pay both the allotment and first and final call money and the shares were forfeited on 13 October 2018.

The forfeited shares were then re-issued at Sh.12 each on 21 October 2018.

Required:

- a. Ledger accounts to record the above transactions **(14 marks)**
- b. Statement of Financial Position as at 21 October 2018 **(6 marks)**

QUESTION THREE (30 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 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'
Fixed 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	10,050		8,700	
Accounts receivable	6,140		7,800	
Investments	1,710		840	
Cash at hand and bank	<u>200</u>		<u>430</u>	
	<u>18,100</u>		<u>17,770</u>	
Current liabilities				
Bank overdraft	(2,390)		(6,540)	
Accounts payable	(5,850)		(5,250)	
Proposed dividends	(450)		(380)	
Taxation	<u>(820)</u>		<u>(600)</u>	
	<u>(9,510)</u>		<u>(12,770)</u>	
Net current assets		8,590		5,000
		37,650		30,000
15% debentures		<u>(7,500)</u>		<u>(9,000)</u>
		<u>30,150</u>		<u>21,000</u>
Capital and reserves:				
Authorised, issued and paid Sh.10				
Ordinary shares		18,000		15,000
Share premium		1,500		750
Revaluation reserve		4,500		-
Retained profit		<u>6,150</u>		<u>5,250</u>
		<u>30,150</u>		<u>21,000</u>

The profit and loss appropriation account for the year ended 31 March 2018 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:

1. Profit for the year is arrived at after charging:

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

2. 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.
3. 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)

Briefly explain whether revenue may be recognized in the following circumstances in respect of sales made by a business entity:

- i. Goods have acquired by the business entity, which it confidently expects to resell very quickly (2 marks)
- ii. A customer places a firm order for goods (2 marks)
- iii. Goods are delivered to the customer's premises (2 marks)
- iv. The customer's cheque in payment for the goods has been cleared by the bank. (2 marks)

A business started trading on 1 January 2017. During the two years, ended 31 December 2017 and 2018 the following debts were written off to the Bad Debts Account on the dates stated:

31 August 2017	W Best	Shs 850
30 September 2017	S Avon	Shs 1,400
28 February 2018	L J Friend	Shs 1,800
31 August 2018	N Kelly	Shs 600
30 November 2018	A Oliver	Shs 2,500

On 31 December 2017, there had been a total of debtors remaining of Shs 405,000. It was decided to make a provision for doubtful debts of Shs 5,500.

On 31 December 2018, there had been a total of debtors remaining of Shs 473,000. It was decided to make a provision for doubtful debts of Shs 6,000.

Required:

Show;

- i. The Bad Debts Account and the Provision for Doubtful Debts Account for each of the two years. (10 marks)
- ii. The relevant extracts from the statement of financial position as at 31 December 2017 and 2018. (2 marks)