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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)