



*(KNOWLEDGE FOR DEVELOPMENT)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2018/2019 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**SUPP/SPECIAL EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BBA 211**

**COURSE TITLE: INTERMEDIATE ACCOUNTING**

**DATE: 16/02/2021**

**TIME: 8.00 – 10.00 A.M**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE IN SECTION A AND ANY OTHER  
TWO (2) QUESTIONS IN SECTION B**

**TIME: 2 HOURS**

KIBUCO observes ZERO tolerance to examination cheating

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## SECTION A (COMPULSORY)

### QUESTION ONE

An extract from the balance sheet of Kimwa Construction Ltd as at 30 June 2003 showed the following summary of property, plant and equipment:

	<b>Equipment</b>	<b>Furniture</b>	<b>Motor vehicles</b>
	<b>Sh.'000</b>	<b>Sh.'000</b>	<b>Sh.'000</b>
Cost	700,000	140,000	140,000
Accumulated depreciation	<u>336,000</u>	<u>70,000</u>	<u>98,000</u>
	<u>364,000</u>	<u>70,000</u>	<u>42,000</u>

The following transactions took place during the year ended 30 June 2004:

1. The company incurred the following costs in acquiring new equipment

	<b>Sh.'000</b>
Invoice price of equipment'	140,000
Freight	10,500
Installation	10,500
Insurance in transit	<u>14,000</u>
	<u>175,000</u>

2. Property, plant and equipment disposed of during the year were as follows:  
In addition, a new truck was acquired by trading in an old truck at an agreed value of Sh.10.5 million and making an additional cash payment of Sh.15 million. The old truck had cost Sh.15 million in July 2000.
3. The directors recommended a reclassification of some items of equipment to furniture. These items had cost Sh.15 million and had accumulated depreciation of Sh.3 million.
4. The company's policy is to charge depreciation on a straight line basis at the following rates:  
Equipment            20% per annum  
  
Furniture            12 ½ % per annum

Motor vehicles 30 % per annum

5. A full year's depreciation was charged in the year of acquisition but none in the year of disposal.

**Required:**

- (a) Explain two other methods of charging depreciation that Kimwa construction Ltd could have used. (2 marks)
- (b) A property, plant and equipment Account, disposal account, provision for depreciation Account for the year ended 30 June 2004. (9 marks)
- c)
- d) Differentiate between the following terminologies as a practicing accountant

i) Assets and liabilities (2 marks)

ii) Cash and profits (2 marks)

iii) List and briefly explain *three* ways in which the use of historical cost accounting may cause financial statements to be misleading. (6 marks)

iv) Assume the following purchases were made by ABC Ltd

Date of purchase	Units purchased	Price/unit
1 <sup>st</sup> January 2016	2000	100
2 <sup>nd</sup> January 2016	4000	200
3 <sup>rd</sup> January 2016	6000	400

Units used on 4<sup>th</sup> January are 7000.

**Required:**

- a) Determine the cost of units used and the value of the closing stocks using FIFO and LIFO methods (9 marks)
- (Total: 30 marks)**

**SECTION B (CHOOSE TWO QUESTIONS)**

**QUESTION TWO**

- a) Explain the different methods of valuation of Receivables as assets (6 marks)
- b) During year 1, ABC Ltd made credit sale of kshs.10,000,000 and made collections of kshs.8,000,000; during year 2, the company made credit sales of kshs. 6,000,000, made collections of kshs. 3,000,000 from year 1 credit sales and kshs.1,000,000 from year 2 credit sales and wrote off credit sales from year 1 in the amount of ksh.1,000,000; the percentage of receivables method was used to estimate the allowance for uncollectible

accounts; the allowance for uncollectible accounts was estimated to be 3% of uncollected accounts receivable each year.

**Required:**

- i. Make necessary ledger entries for ABC Ltd (6 marks)
- ii. What will be the position of the above entries in case of adopting the percentage of sales method was used to estimate bad debt expense; considering that bad debt expense was estimated to be 1.5% of credit sales each year. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Briefly explain the objectives and scope of IAS 7 (Cash Flow Statements). (6 marks)
- (b) Given below are the comparative balance sheets of Tausi Ltd., a trading company, for the years ended 31 October 2000 and 2001:

	2001		2000	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
<b>Assets</b>				
Non current assets:				
Goodwill	23,500		32,650	
Premises	200,000		80,000	
Plant and machinery	290,100		278,200	
Office equipment	<u>126,250</u>	639,850	<u>87,360</u>	478,210
Current assets:				
Stock	88,890		67,815	
Debtors	57,890		52,015	
Bank	<u>9,210</u>	<u>155,990</u>	<u>-</u>	<u>119,830</u>
		<u>795,840</u>		<u>598,040</u>
<b>Capital and Liabilities</b>				
Capital:				
Ordinary shares	425,000		250,000	
10% redeemable preference shares	75,000		160,000	
Share capital	33,000		-	
Share capital	30,000		-	
Capital redemption reserve	38,000		12,000	
General reserve	<u>22,300</u>	<u>623,300</u>	<u>11,200</u>	433,200
Profit and loss account				
Non-current liability		63,000		50,000
Bank loan				
<b>Current liabilities</b>	49,820		40,290	
Creditors	30,500		28,500	
Current tax	26,000		18,000	

Proposed ordinary dividends	3,200		5,420	
Accruals	—	<u>109,540</u>	<u>22,630</u>	<u>114,840</u>
Bank overdraft		<u>795,840</u>		<u>598,040</u>

**The following additional information is provided:**

1. Some of the redeemable preference shares which had been issued at par, were redeemed at a premium of 2%. To finance the redemption and comply with the Companies Act requirements, the company simultaneously carried out the following:
  - (i) Issued 5,500,000 additional ordinary shares of Sh.10 at a total premium of Sh.34,700,000.
  - (ii) Transferred sufficient amounts to the capital redemption reserve.
  - (iii) Financed the premium on redemption out of the premium received on issue of the additional ordinary shares.
  
2. Preference dividends are paid at the end of each financial year on shares outstanding then.
  
3. Part of plant and machinery which had cost Sh.60,000,000 on acquisition and on which Sh.42,000,000 accumulated depreciation had been provided was sold for Sh.25,000,000 during the year.
  
4. Included in the depreciation charge for the year is Sh.15,100,000 in respect of plant and machinery.
  
5. New office equipment was purchased in the year for Sh.55,000,000. There was no disposal of office equipment during the year.
  
6. It is the company's policy not to depreciate premises. The change in the premises account balance was due to a revaluation of the asset.
  
7. The revaluation reserve arising in (6) above was all to finance the issue of fully paid-up bonus shares of Sh.10 each to ordinary shareholders.
  
8. A new bank loan of Sh.25,000,000 was received in the year. Bank interest of Sh.8,000,000 was also paid in the year.
  
9. Current tax liability is in respect of the tax charge for the respective year.
  
10. During the year ended 31 October 2001 an interim dividend of Sh.14,000,000 was paid.

**Required:**

**QUESTION FOUR**

- (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. (6 marks)

Sijui is having difficulty in preparing a bank reconciliation statement as at 31 December 2001. He provides a summarized cashbook and a bank statement for the month of December as shown below. Although the bank statement is correct his cashbook has several errors.

**Cashbook**

	Shs.			Shs.
January		Total payments		
Opening overdraft	385,006.60	made		1,925,018.70
Total received		Excluding		<u>660,018.70</u>
Excluding	<u>2,200,030.80</u>	December		<u>2,585,037.40</u>
December	<u>2,585,037.40</u>	Balance c/d		
	660,018.70			
Receipts	9,800.45		8081	2,042.70
Deposit	6,669.85	Payments	8082	10,603.45
Deposit	820.60	Oloo Ltd	8083	275,000.00
Deposit	928.40	Wages	8084	6,789.75
Deposit	170,500.00	C Supplies	8085	37,339.50
Deposit	9,417.65	M M Construction	8086	80.85
Deposit	65,899.35	K Ltd	8087	1,091.20
Deposit		Local council	8088	586.30
	<u>924,055.00</u>	S Services		<u>590,411.25</u>
		XYZ Ltd		<u>924,055.00</u>
		Balance c/d		

**Bank Statement - December 2001**

			Dr	Cr	Balance
1 Dec	Balance b/f		44,000.00		(44,000.00)
		8074	16,500.00		(60,500.00)
		8080	10,555.05		(71,055.05)
	Deposit			9,800.45	(61,254.60)
		8081	2,042.70		(63,297.30)

	Deposit			6,669.85	(56,627.45)
	Deposit			820.60	(55,806.85)
		8079	61,111.05		(116,917.90)
	Deposit			928.40	(115,989.50)
		8083	275,000.00		(390,989.50)
	Standing order		2,750.00		(393,739.50)
	Deposit			170,500.00	(223,239.50)
	Deposit			9,417.65	(213,821.85)
	Deposit			65,899.35	(147,922.50)
	Deposit			6,488.90	(141,433.60)
	Deposit	8086	80.85		(141,514.45)
		8088	586.30		(142,100.75)
		8082	7,138.45		(149,239.20)
		8085	37,339.50		(186,578.70)
			4,400.00		(190,978.70)
	Bank Charges				

**Required:**

- a) Prepare a corrected cashbook (6 marks)
  - b) A bank reconciliation as at 31 December (8 marks)
- (Total: 20 marks)**