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*(KNOWLEDGE FOR DEVELOPMENT)*

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS  
2021 / 2022 ACADEMIC YEAR  
SECOND YEAR FIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE  
COURSE CODE: BCA 211  
COURSE TITLE: ACCOUNTING FOR ASSETS AND  
LIABILITIES  
DATE: 31<sup>ST</sup> JANUARY, 2021 TIME: 2.00PM – 4.00PM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

**TIME: 2 HOURS**

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 8 Printed Pages. Please Turn Over.

**SECTION A (COMPULSORY)**  
**QUESTION ONE**

(a) Briefly explain the importance of a cash flow statement to a business entity. (4 marks)

**Statement of financial position as at 31 March**

|                                 | 2015<br>Sh. '000' | 2014<br>Sh. '000' |
|---------------------------------|-------------------|-------------------|
| <b>Assets:</b>                  |                   |                   |
| <b>Non-current assets:</b>      |                   |                   |
| 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>    |
| <b>Current assets:</b>          |                   |                   |
| 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>    |
| <b>Equity and liabilities:</b>  |                   |                   |
| <b>Capital and reserves:</b>    |                   |                   |
| 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>    |
| <b>Non-current liabilities:</b> |                   |                   |
| 10% debentures                  | 30,000            | 20,000            |
| Bank loan                       | <u>6,000</u>      | <u>10,000</u>     |
|                                 | <u>36,000</u>     | <u>30,000</u>     |
| <b>Current liabilities:</b>     |                   |                   |
| 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 2015:

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 Kibabii University'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 2015.  
(14 marks)

b) Marketable securities are liabilities by nature. Discuss (4 marks)

c) Kibabii University Town campus students went through their bachelor of commerce course for four years as trained business managers. Nonetheless on getting to their respective working places, they further understood that in practice, there were quite some slight differences between Generally Accepted Accounting Principles (GAAPs) and International Financial Reporting Standards (IFRS) in terms of the following activities. Briefly explain this statement.

- i) Layout of balance sheet and income statement (4 marks)
- ii) Debt as a current asset vs. non-current asset (4 marks)

(Total: 20 marks)

**SECTION B (CHOOSE ANY TWO QUESTIONS)**

**QUESTION TWO**

2a) Explain the reasons for maintaining a bank reconciliation statement on daily basis (4 marks)

2b) According to the cash book of Gaitani Ltd. the company has a credit balance at the bank of Sh.190,000 on 30 June 2014, but this is NOT borne out by the Bank Statement of the same date. An investigation into the difference yields the following information.

1. A standing order for a charitable subscription of Sh.20, 000 had been paid by the bank on 29 June but no entry had been made in the cash book.
2. A cheque paid for advertising on 10 June for Sh.89, 500 had been entered into the cash book as Sh.98,500.
3. Cheques for S11.5 18,500 sent to creditors on 30 June were not paid by the bank until 8 July.
4. Cheques received from customers amounting to sh.840,000 were paid into the bank on 30 June but were not credited by the bank until 5 July.

5. On 20 Julie a cheque for h.57, 000 was received from a customer in settlement of an invoice for Sh.60.000. An entry of Sh.60.000 had been made in the cash hook.

**Required:**

- (a) Prepare a statement reconciling the cash hook balance with the hank statement (12 marks)
- (b) Explain how a company may have reduced its bank balance during an accounting period but still have earned a profit for that same period. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- a) Financial reports are not sufficiently accurate to be truthful. Furthermore financial reports are not sufficiently truthful to be accurate. Discuss **(14 marks)**
- b) Intangible assets unlike tangible assets have a special value in the books of accounts. Discuss **(6 marks)**

**QUESTION FOUR**

Reviewing the draft accounts of Uzee Ltd for the year ended 31 st December 2015 as prepared by the Chief Accountant, the Managing Director suggests that the written down value of plant is too low. To support his argument he produces the following schedule of plant on hand at 31 December 2015:

| Item    | Year of Purchase | Cost      | Life | Estimated Scrap Value |
|---------|------------------|-----------|------|-----------------------|
| Plant 1 | 1993             | 205,000   | 20   | 25,000                |
| Plant 2 | 1998             | 185,000   | 20   | 25,000                |
| Plant 3 | 1996             | 375,000   | 10   | 50,000                |
| Plant 4 | 1999             | 470,000   | 10   | 50,000                |
| Plant 5 | 1996             | 67,500    | 8    | 7,500                 |
| Plant 6 | 2000             | 125,000   | 15   | 5,000                 |
| Lorry   | 2001             | 1,050,000 | 4    | 250,000               |

After discussing the matter the following policy is agreed:

- 1) Each item of plant to be depreciated on a straight line basis to its estimated scrap value over its estimated life.

2) A full year's depreciation to be charged in the year of purchase.

On investigation you ascertain that:

There is no plant register.

Plant which includes the lorry is shown in the accounts at cost less proceeds of sales.

3) For some years depreciation was charged at 15% on the reducing balance and then from 31st December 1998 at 10% of cost less proceeds of sales on a straight line basis.

4) The Plant account for the year ended 31st December 2015 was:

Plant

|  | Sh.              |                       | Sh.              |
|--|------------------|-----------------------|------------------|
| Opening balance                          |                  | Opening balance       |                  |
| Cost less sales                          | 4,100,000        | Depreciation to date  | 3,050,000        |
| Lorry at cost less trade in of old Lorry | 700,000          | Depreciation for year | 480,000          |
| Balance c/d                              | <u>3,530,000</u> | Balance c/d           | <u>4,800,000</u> |
|  | <u>8,330,000</u> |                       | <u>8,330,000</u> |

You are required to show, after implementing the new policy:

a) The Plant Account as it should appear in the books of the company for the year ended 31st December 2015

**(Total: 20 marks)**

**QUESTION FIVE**

a) Explain the advantages and disadvantages of FIFO method of inventory valuation (6 marks)

b) Assume the following purchases were made by ABC Ltd

| Date of purchase             | Units purchased | Price/unit |
|------------------------------|-----------------|------------|
| 1 <sup>st</sup> January 2016 | 5000            | 1000       |
| 2 <sup>nd</sup> January 2016 | 6000            | 2000       |
| 3 <sup>rd</sup> January 2016 | 8000            | 4000       |

Units used on 4<sup>th</sup> January are 9000.

**Required:**

Determine the cost of units used and the value of the closing stocks using FIFO and Weighted Average (14 marks)