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(KNOWLEDGE FOR DEVELOPMENT)

**KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS**

2022/2023 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: 16TH DECEMBER, 2022

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

QUESTION ONE

c) Differentiate between GAAPS (Generally Accepted Accounting Principles) and IFRS (international financial Reporting Standards) in terms of:

- 1 inventory valuation (3 marks)
- 2 financial periods required (3 marks)
- 3 assets and liabilities arising from contingencies (4 marks)

Mrs. Lilian Kabura retired from employment on 1 October 2014 and was paid terminal benefits of Sh. 3,000,000 He utilized Sh. 2,500,000 in purchasing business premises and deposited the balance in a new business account at Faida Bank Ltd."

Mrs.Kabura did not maintain proper books of account. However, he kept files of statements from suppliers, cheque counter foils and unpaid invoices for purchases made. He also maintained a note book in which he recorded sales to customers who had credit accounts and settled their accounts by cheque. Cash collected from sales was banked at the end of each week after payment of certain expenses. Mr.Kabura also maintained some petty cash for office use. Mr.Kabura estimates to have paid the following business expenses from his personal bank account.

	Sh.'000'
Rent and rates for additional apace	100
Lighting expenses	50
Stationery and postage expenses	26

An analysis of the bank statements for the year ended 30 September 2015 was as follows:

Receipts	Sh.'000'	Payments	Sh.'000'
Account opening	500	Petty cash withdrawn	20
Weekly bankings	3,769	Fixtures and fittings	300
Cheques from customers	382	Suppliers for goods	3,728
Cash refunded by a supplier	10	Insurance for inventory	40
		Bank charges	110
		Balance carried down	463
	<u>4,661</u>		<u>4,661</u>

Additional information:

1. Kabura estimates that during the year ended 30 September 2015, he utilized cash collected from sales for the following purposes:

	Sh.'000'
Wages payment	400
Sundry expenses payment	50
Drawings	600

2. Cheques received from credit customers amounting to Sh.30, 000 had not been credited by the bank as at 30 September 2015.
3. Insurance paid for inventory during the year includes Sh. 20,000 relating to premium for the year ending 30 September 2016.
4. Petty cash balance as at 30 September 2015 was Sh. 15,000 which included a postdated cheque of Sh. 5,000 drawn by Mr. Baraka's friend in exchange for cash advanced from petty cash.
5. Credit customers owed Sh. 172,000 as at 30 September 2015.
6. As at 30 September 2015, the following were due on accounts payable:

	Sh. '000'
Suppliers	403
Wages	10
Sundry expenses	6

7. Depreciation is to be provided on a straight-line basis at the following rates:

Business premises	2%
Fixtures and fittings	10%

8. The value of inventory as at 30 September 2015 was Sh. 360,000.

Required:

- (a) Income statement for the year ended 30 September 2015. (12 Marks)
- (b) Statement of Financial Position as at 30 September 2015. (8 Marks)

(Total 30 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

- Define marketable securities (2 marks)
- Generally accepted accounting principles require companies to classify their investment securities into categories. Account for this statement. (8marks)
- Identify and explain five indicators which show that an impairment loss to a fixed asset may have occurred. (10 marks)

QUESTION THREE

- Define FIFO as method of inventory valuation (2 mark)
- Explain the advantages and disadvantages of FIFO method of inventory valuation (6 marks)
- Assume the following purchases were made by ABC Ltd

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

Units used on 4th January are 9000.

Required:

- Determine the cost of units used and the value of the closing stocks using FIFO, LIFO and Weighted Average (12 marks)

(Total 20 marks)

QUESTION FOUR

- Briefly explain the importance of a cash flow statement to a business entity. (5 marks)
- Kibabii University a medium sized University, closes its books every 31 December. Given below are the comparative balance sheets of Kibabii University for the years ended 31 March 2014 and 2015.

Statement of financial position as at 31 March

	2015 Sh. '000'	2014 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>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 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.
(15 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the term "bank reconciliation" and state the reasons for its preparation.

(6 marks)

- (b) KIBABII UNIVERSITY received its bank statement for the month of June 2015. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500. The accountant investigated the matter and discovered the following discrepancies:
1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
 2. Cheques drawn by the University totaling Sh.22,500 had not yet been presented to the bank
 3. The Accountant had not entered receipts of Sh.26,500 in his cashbook.
 4. The bank had not credited the UNIVERSITY with receipts of Sh.98, 500 paid into the bank on 30 June 2015.

5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cash book the University Accountant had entered a payment of Sh.74, 900 as Sh.79, 400.
7. A cheque for Sh. 15,000 from a student had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. The University had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honoured it.
10. Some of University's students had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some students' deposits amounting to Sh.832, 500 to a supplier's account. However, acting on information from students, The University had actually entered the expected receipts from the debtors in his cashbook.

Required:

- (i) A statement showing Kibabii University's adjusted cash book balance as at 30 June 2015. (9 marks)
- (ii) A bank reconciliation statement as at 30 June 2015. (5 marks)

(Total: 20 marks)