



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2021 /2022 ACADEMIC YEAR

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE/ BSc. ACCOUNTING

COURSE CODE: BCA 201

**COURSE TITLE: ACCOUNTING FOR ASSETS AND
LIABILITIES**

DATE: WEDNESDAY, 27TH JULY 2022

TIME: 11-1PM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

QUESTION ONE (COMPULSORY-30 MARKS)

- (a) Annual financial reports tabled before shareholders in annual general meeting and published in mass circulation newspapers included three financial statements: statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in equity. These statements present specific information to shareholders and prospective investors.

Required

For each of the four statements listed, briefly state and explain the information the statement presents to users of financial statements. (10 marks)

- (b)
- (i) Accounting for allowance for uncollectible accounts is supported by two fundamental accounting principles. State and briefly explain how these principles are applied in these instances. (6 marks)
- (ii) Microsoft Corporation is a company that deals in household goods. In 2018 income statement it reported sales of sh 36, 835,000 with a bad debts expense of sh 44,000. Its provision for uncollectible accounts and accounts receivable balances in January 2018 were sh 242,000 and sh 5,196,000 and sh 166,000 and sh 5,890,000 at the end of the year respectively.

Required

Rewrite Microsoft corporation ledger, with respect to the following accounts:

- (a) Debtors control account, provision for uncollectible accounts, bad debts expense account (6 marks)
- (b) How much cash and bad debts was collected and written off respectively in 2018? (4 marks)
- (c) State and explain three conditions under which interest costs are permitted by generally accepted accounting principles(GAAPs) to be capitalized. (4 marks)

QUESTION TWO

- a) The management of Beta ltd are undecided whether to continue using the weighted average method for cost assignment to stock issues or to change to LIFO or FIFO. They have now decided to consult you for advice; briefly explain to them the advantages and disadvantages of using each method and conditions under which they should select each (6 marks)
- b) Briefly explain three advantages of using perpetual inventory system in accounting for stock (4 marks)

- c) The following information was obtained from the stores records of XYZ Co ltd. The company maintains inventory account under perpetual inventory system and last in first out cost assignment method.

2019			Units	Unit Cost (Sh.)
September	1	Purchased	200	90
"	3	Purchased	400	105
"	4	Issued	100	
"	5	Issued	200	
"	6	Purchased	200	110
"	7	Issued	200	
"	8	Purchased	500	120
"	10	Issued	400	

Required

Show the inventory account as it would appear in XYZ Co ltd.'s books on 10th September 2018.
(10 marks)

QUESTION THREE

- (a) Briefly explain the following concepts as used with reference to investment securities:
Fair value; discount rate; zero coupon bond; coupon rate of interest, stock split, script issue.

(6 marks)

- (b) On 1/1/2017, HH Ltd purchased sh. 4,000,000 par of WD Ltd.'s 10% four year bond paying interest semi- annually on 30th June and 31 December each year till maturity. The market rate of interest and HH's required rate of return is 12%. HH ltd has the intention and ability to hold the bond up-to maturity.

Required

- (i) Fair value of the bond (4 marks)
- (ii) If the bond is sold at fair value, show the discount or premium amortization schedule based on effective interest rate (2 marks)
- (iii) 10% Bond Account, discount/Premium on 10% bond account, interest income account, as at 31 December 2017, 2018, 2019, and 2020. (8 marks)

- (iv) Show the values to present in the income statement and statement of financial position as at 31 December 2017, 2018, 2019, and 2020. (2 marks)

QUESTION FOUR

- (a) Briefly explain the importance of a cash flow statement to a business entity. (5 marks)
 (b) XYZ a medium sized business, closes its books every 31 December. Given below are the comparative balance sheets of xyz for the years ended 31 March 2019 and 2020.

Statement of financial position as at 31 March

	2020 Sh. '000'	2019 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 2020:

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 XYZ 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 2020.
(15 marks)