



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

SECOND YEAR SEMESTER ONE EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE/ SCIENCE (ACCOUNTING)**

COURSE CODE: BCA201

COURSE TITLE: ACCOUNTING FOR ASSETS AND LIABILITIES

DATE: FRIDAY 16TH DECEMBER 2022

TIME: 12-2PM

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

QUESTION ONE (30 MARKS)

- a) Explain the term `bank reconciliation. State the reasons for its preparation. (4 mks)
- b) Wepukulu, a sole trader received his bank statement for the month of June 2022. At the date the bank balance was sh706,500, whereas his cash book bank balance was sh 2,336,500. His accountant investigated the matter and discovered the following discrepancies;-
1. Bank charges of sh3000 had not been entered into the cashbook.
 2. Cheques drawn by Wepukulu totaling sh. 22,500 had not yet been presented to the bank.
 3. He had not entered receipts of sh 26,500 in his cashbook.
 4. The bank had not credited Mr. Wepukulu with receipts of Sh 98500 paid into the bank on 30th June 2022
 5. Standing order amounting to Sh 62000 had not been entered in the cash book
 6. A cheque for Sh 15000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cash book
 7. Wepukulu had brought forward the opening cash balance of 329250 as a debt balance instead of a credit balance
 8. An old cheque payment amounting to Sh 44000 had been written back in the cashbook but the bank had already honored it.
 9. In the cashbook Wepukulu had entered a payment of Sh 74900 as 79400
 10. Some of Wepukulu's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately the bank had credited some deposits amounting to Sh 832,500 to another customers account. However, acting on information from his customers Wepukulu had actually entered the expected receipts from the debtors in his cash book

Required:

- (i) Adjusted cashbook and (6 marks)
- (ii) bank reconciliation statement as at 30th June 20022 (5 marks)

(b) The property plant and equipment balances of Six-Eight Ltd. comprised the following as at 1 January 2021:

	Cost.	Depreciation	Net book value
	Sh."000"	Sh."000"	Sh."000"
Freehold land	300,000		30,000
Buildings	38,520		38,520
Plant and machinery	70,200	37,812	32,388
Motor vehicles	37,800	23,040	14,760

The company uses straight line method of depreciation on assets as 10% per annum for plant and machinery 20% per annum for motor vehicles•

Additional information

- i. It is the company's policy to make a depreciation charge proportionate to the period of usage of the assets
- ii. An item of machinery bought on 1 July 2017 for sh. 10,080,000 was sold on 1 April 2021 at Sh. 6,000,000

- iii. From the year ended 31 December 2021, the management of the company decided to charge depreciation on buildings at a rate of 2.5% per annum. The buildings were completed on 1 July 2017.
- iv. On 1 January 2021, a vehicle purchased on 1 May 2018 for sh. 12,600,000 was traded in at a value of Sh. 7,320,000 in part exchange for a new vehicle costing Sh. 18,000,000
- v. Included in machinery is an old machine which originally cost Sh. 13,500,000 and which was already fully depreciated and not expected to yield any material amount on either use or resale.
- vi. On 30 June 2021, a machine costing Sh 13,500,000 was purchased from a vendor who had used it for three years. The vendor had bought the machine costing Sh. 10,500,000 on 1 august 2018.

Required:

A schedule showing the movement of property, plant and equipment for the year ended 31 December 2021 (15 marks)

QUESTION TWO (20 MARKS)

- a) State and explain any three methods of inventory cost assignment method for stock issues(6 mar
- b) Explain the following terms as used in inventory management system
 - i. Perpetual inventory system(2 marks)
 - ii. Periodic inventory system(2 marks)
- c) The following information was obtained from the stores of ABC company ltd.The company maintains inventory account under perpetual inventory system and uses weighted average cost assignment method.

2021

- July 2 Purchased 200 units @sh 90 each
- “ 4 purchased 400 units @ sh 105 each
- “ 6 issued 100 units
- “ 9 issued 200 units
- “ 15 purchased 200 units @110 each
- “ 20 issued 200 units
- “ 23 purchased 500 units @120 each
- “ 30 issued 400 units

There were 300 units valued at shs 80 each at the beginning of the month

Required.

Prepare the storage ledger card for ABC Company ltd for the month of July 2021(10 marks)

QUESTION THREE (20 MARKS)

- a) On March 1, 2016, Beldon Corporation purchased land as a factory site for sh.60,000. An old building on the property was demolished, and construction began on a new building that was completed on December 15, 2021. Costs incurred during this period are listed below:

Demolition of old building	Sh. 4,000
Architect's fees (for new building)	Sh. 12,000
Legal fees for title investigation of land	Sh. 2,000
Property taxes on land (for period beginning March 1, 2021)	Sh. 3,000
Construction costs	Sh.500,000
Interest on construction loan	Sh. 5,000

Salvaged materials resulting from the demolition of the old building were sold for sh.2,000.

Required: Determine the amounts that Beldon should capitalize as the cost of the land and the new building.(6 marks)

- b) At the end of 2021, the Biggie Company performed its annual physical inventory count. John the manager in charge of the physical count, was told that an additional sh.22,000 in inventory that had been sold and was in transit to the customer should be included in the ending inventory balance. John was of the opinion that the merchandise shipped should be excluded from the ending inventory since Biggie was not in physical possession of the merchandise.

Required: Discuss the situation and indicate why John's opinion might be incorrect (4 marks)

- c) On January 1, 2019, the ABC Ltd issued sh. 8,000,000 of 11% bonds, dated January 1. Interest is payable semi-annually on June 30 and December 31. The bonds mature in four years. The market yield for bonds of similar risk and maturity is 10%.

Required:

- Determine the market price these bond. (4 marks)
- Prepare interest amortization schedule. (6 marks)

QUESTION FOUR (20 MARKS)

a) Briefly explain the importance of a cash flow statement to business entity (5 Marks)

b) Bellow is the comparative balance sheet of xyz for years ended 31 March 2020 and 2021

Statement of financial position as at 31st march

	2021 shs.000	2020 shs.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 and cash in hand	<u>-48,000</u>	3,000
Total assets	<u>214,000</u>	<u>165,000</u>
Equity and Liabilities		
Capital Reserves;		
Ordinary Share capital	80,000	50,000
Share premium	20,000	15,000
Revaluation Reserve	15,000	25,000
Retained profits	<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 liability	<u>214,000</u>	<u>165,000</u>

The following additional information is provided for the year ended 31 march 2021

- i) Land and buildings were revalued upwards by sh.10, 000,000 during the year. In addition, an acquisition of land and building of shs. 40,000,000 were made.
2. Depreciation on motor vehicles amounting to shs.4, 000,000 was provided in profit and loss account for the year. Motor vehicles having a net book value of shs.8, 000,000 were sold at a profit of shs 3,000,000 during the year
3. Bonus shares of shs 20,000,000.were issued at par during the year by utilizing the revaluation reserve .XYZ ordinary shares have a par value of shs20
4. Interest expenses charged to profit and loss account for the year amounted to shs 8,000,000
5. During the year tax amounting to shs.6, 000,000 was paid
6. Total dividends for the year (both interim and proposed amounted to ksh 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 requirement of IAS 7) for the year ended 31 March 2021(15Marks)