KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 200: ACCOUNTING FOR ASSETS

DATE: Monday, 8th May 2017 **TIME: 8.00 a.m. - 10.00 a.m.**

INSTRUCTIONS:

ANSWER ALL QUESTIONS

1. a) Sam sold goods to Janet worth shs.400,000 on 1st March 2016. The terms were 30 days. Janet did not pay on the due date. On 15th April 2016 Janet agreed to issue a three month note with interest at 15% p.a.to cover the entire amount. The note was honoured on the due date.

Required:

Prepare journal entries to record the above transaction in Sam's books. (7 marks)

b) The aging of the accounts receivable of Cole company was as follows on 31st December, 2014.

Age Group	Amount Sh.	Percent of uncollectible
Current	1,400,000	3%
Over 30 days	985,000	4
Over 60 days	600,000	5
Over 90 days	55,000	8

The company uses the allowance method to record bad debts.

Required:

Prepare the adjusting entries to estimate bad debts assuming

i) the balance in the allowance account is zero

ii) the balance in the allowance account is sh.75,000

iii) the balance in the allowance account is shs.23,000 debit. (10 Marks)

c) Lucy factored receivables worth sh.400,000 on 1st October 2015. The factor company charged a fee of 2%

Required:

Prepare the journal entry to record the transaction in Lucy's books. (3 Marks)

(Total 20 Marks)

2. The following information about Q, a stock item sold by David has been presented to you

October 1	b/d	1,000 units @ sh.9
October 5	Sale	800 units @ sh.11
October 7	Purchase	2,000 units @ sh.9.50
October 13	Sale	600 units @ sh.11
October 17	Purchase	3,000 units @ sh.10
October 24	Sale	3,200 units @ sh.12
October 29	Purchase	1,500 units @ sh 10
October 31	Sale	2,000 units @ sh.13

Required:

Compute the cost of closing stock and the gross profit under each of the following cost flow assumptions.

a) LIFO periodic

b) LIFO perpetual

c) Weighted average perpetual. **(Total 20 Marks)**

3. Putin Ltd purchased a motor vehicle at a cost of sh.3,200,000 on 1st August 2012. The motor vehicle has a useful life of five years and a salvage value of sh.800,000. During the five years the motor vehicle is expected to cover 500,000 kilometres. In 2012 it covered 45,000 kilometres and in 2013 it covered 95,000 kilometres. The company's policy is to provide for full years depreciation in the year of purchase and no depreciation in the year of disposal.

Required:

a) Compute depreciation for the years 2012 and 2013 under

i) Output method

ii) Declining balance method. (10 marks)

b) Assuming the motor vehicle was disposed on 1st January 2013 for sh.1,200,000 show the journals to record the disposal under the two methods above. (6 Marks)

c) Sport company whose year ends in 31st December purchased equipment on 1st September 2015 at a cost of shs.4,400,000. The equipment has an estimated useful life of five years and a salvage value of sh.400,000. The company uses the sum of years digits method of depreciation.

Required:
Compute depreciation for year 2015. (4 Marks)

(Total 20 marks)

4. Explain the following terms as used in accounting:
   i) Natural resources
   ii) Franchise
   iii) Patent
   iv) Organization costs
   v) Goodwill

(Total 10 Marks)