KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 200: ACCOUNTING FOR ASSETS

DATE: SATURDAY 23RD JUNE 2018 **TIME: 2.00 P.M. - 4.00 P.M.**

INSTRUCTIONS: Answer ALL questions.

1. a) Explain the following qualitative characteristics of accounting information
   i) Relevance
   ii) Reliability

(4 marks)

b) Paul received the bank statement of the month of December 2017 which reflected a balance of sh.481,950 whereas the cash book balance was sh.485,700. The accountant investigated the matter and discovered the following discrepancies:

i) Bank charges of sh.2,400 had not been entered in the cash book.

ii) Cheques drawn by Paul totaling sh.62,300 had not yet been presented to the bank.

iii) Receipts of sh.25,000 had not been recorded in the cash book.

iv) The bank had not credited Paul with receipts of sh.5,800 paid into the bank on 31st December 2017.

v) A standing order payment for rent amounting to sh.6,200 had not been entered into the cash book.

vi) In the cash book Paul had entered a payment to a creditor of sh.45,490 as sh.54,490 in error.

vii) A cheque for sh.11,500 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cash book.

viii) Paul had brought forward the opening cash balance of sh.42,925 as a debit balance instead of a credit balance.

ix) A receipt of sh.7,600 from a cash customer was recorded in the cash book as sh.6,700 in error.

x) The bank had recorded a deposit of sh.16,000 as sh.1,600 in error.

xi) The bank had recorded a cheque payment of sh.28,000 as sh.2,800 in error.

Required:

a) Using a "T" account update the cash account as at 31st December 2017. (9 marks)

b) A bank reconciliation statement as at 31st December 2017 reconciling the bank statement balance to the correct cash balance. (6 marks)

2. a) On 1st February 2015, Pen Ltd purchased goods for sale at a cost of sh.600,000 under terms 3/5, n/30. The goods were paid for on 5th February 2015. The company policy is to record purchase at the gross amount.

Required:

Show the general journal entries to record the above transactions. (5 marks)

b) The following information relates to Belt Ltd for the year ending 31st December 2016.

Credit sales in the year	sh. 7,500,000
Debtors 31/12/16	1,850,000
Provision for bad debts 31/12/16	20,000

Required:

Prepare journal entries to estimate bad debts expense under each of the following INDEPENDENT assumptions.

i) 2% of the credit sales are bad debts

ii) 3% of the debtors at year end are bad debts

iii) On 1st April 2017 Alfred who owed Belt Ltd sh.18,000 left the country and the company decided to write of the amount. (6 marks)

3. The following information about XYZ, a stock item sold by Otieno has been presented to you.

October 1	b/d	240 units @ sh.22
October 5	Sale	180 units @sh.24
October 7	Purchase	440 units @ sh.23
October 13	Sale	140 units @ sh.27
October 17	Purchase	600 units @ sh.24
October 24	Sale	640 units @ sh.29
October 29	Purchase	320 units @ sh.24
October 31	Sale	400 units @ sh.30

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

(20 marks)

4. Santech Ltd purchased a piece of land for construction at a cost of sh.1,800,000 on 1st August 2010. The company incurred a further sh.250,000 to demolish an old building on the land. The debris from the old building were sold for sh.50,000. A building was constructed at a cost of sh.2,200,000. The building has a useful life of forty years and a salvage value of sh.200,000. 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) Cost of the land (4 marks)

b) Compute depreciation on the building for the year 2010 under the straight line method. (2 marks)

c) Nellion Ltd purchased equipment at a cost sh.3,600,000. the equipment has an estimated useful life of 5 years and a salvage value of sh.600,000. the company uses the double declining balance method of depreciation.

Required:

(i) Compute depreciation for year one and year two.

(ii) Assuming the equipment was disposed at the beginning of year three at sh.1,400,000 show the journal entry to record the disposal.

(10 marks)

5. Explain the following terms:

i) Goodwill

ii) Copyright

(4 marks)

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