



KIBABII UNIVERSITY COLLEGE (KIBUCO)

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2014 /2015 ACADEMIC YEAR**

SECOND YEAR FIRST SEMESTER EXAMINATIONS

MAIN EXAMINATION

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCA 201

COURSE TITLE: ACCOUNTING FOR ASSETS AND LIABILITIES

DATE: 23RD JANUARY 2015 TIME: 3.00-5.00 P.M

INSTRUCTIONS TO CANDIDATES:

Answer Question ONE and any other Two Questions

TIME: 2 Hours

QUESTION ONE (COMPULSORY)

- a) The international Accounting Standards (IAS) recognizes the following as fundamental accounting principles:- Discuss.
- (i) Money Measurement
 - (ii) Periodicity
 - (iii) Historical cost
 - (iv) Going concern
 - (v) Accruals (10 marks)
- b) State and explain any five of the broad principles of internal control (10 marks)
- c) Three year bonds are issued at face value of shs.100,000 on Jan 1, 2007 and a stated interest rate of 8%. Calculate the issue price of the bonds assuming a market interest rate of 6% (5 marks)
- d) Discuss five features of bonds (5 marks)

QUESTION TWO

The following is a December 31st 2012 post closing trial balance for XYZ Ltd.

	Dr	Cr
	Shs	Shs
Cash	65,000	
Accounts receivable	160,000	
Inventories	286,000	
Prepaid expenses	148,000	
Preliminary Expenses	2,000	
Land and Buildings	400,000	
Machinery and Equipment	320,000	
Accumulated depreciation-Equipment		110,000
Investments	300,000	
Accounts payable		70,000
Interest payable		20,000
Unearned Revenue		80,000
Taxes payable		31,000
Notes payable		200,000
Allowance for uncollectible accounts		16,000
Common stock		800,000
Retained Earnings		354,000
	<u>1,681,000</u>	<u>1,681,000</u>

Additional information

- (i) Prepaid expenses include shs.120,000 paid on 31/12/2012 for a two year lease on building that houses both the administrative offices and manufacturing facilities.

- (ii) Investments include shs. 30,000 in Treasury bills purchased on 30/11/2012. The bills mature on 30/1/2013. Shs.120,000 include investment in Marketable equity securities that the company intends to sell in the next year. The remainder represents shares in Twende Ltd; a 90% subsidiary that supplies the bulk of XYZ raw materials.
- (iii) Unearned revenue represents customer prepayments for magazine subscriptions. Subscriptions are for periods of one year or less.
- (iv) The notes payable account consists of the following
 - (a) Shs. 40,000 note due in six months
 - (b) Shs. 100,000 note due in six years
 - (c) Shs. 60,000 note due in three annual installments of shs. 20,000 each with the next installment due August 31st 2013.
- (v) Land and buildings refer to property held purely for rental. The company rents a smaller building in down town for its operations.
- (vi) Preliminary expenses represent pre-operation expenses yet to be amortized in future periods.
- (vii) The company has an authorized share capital of sh. 1,500,000 dividend into 150,000 units of shs. 10 par.

Required

Prepare a classified balance sheet for XYZ Ltd as at 31/12/2012 (20 marks)

QUESTION THREE

(a) Differentiate between bad debts written off and provision for doubtful debts.(5 marks)

(b) The following data relates to the books of cyber café enterprises at 31/12/2004

Bad debts written off	shs. 125,000
Provision for doubtful debts 1/1/2014	shs. 50,000
Net debtors	shs. 2,700,000

Provision for bad debtors is to maintained at 5% of good debtors

Required:-

- (i) Relevant ledger Accounts (11 marks)
- (ii) Profit and loss Account for the year ended 31/12/2004 (2 marks)
- (iii) Balance sheet as at 31/12/2004 (2 marks)

QUESTION FOUR

(a) Outline the three critical attributes of an intangible assets (5 marks)

(b) Outline the cost which should not be included in the initial cost of property, plant and Equipment (4 marks)

(c) ABC Ltd is a media developer. On 1st Jan 2004, the company imported specialized electronic equipment from the United States. The following costs were incurred:-

- (i) Purchase price (list price)- shs.800,000(Trade discount) of shs. 5% was granted.
- (ii) Insurance and freight – shs. 250,000
- (iii) Duty (Include claimable VAT shs. 36,000)- sh. 146,000
- (iv) Installation cost-shs.480,000

The equipment was put into use on 1st July 2014, and was estimated to have a useful life of 5 years and a residual value of shs. 150,000 on 31st Dec, 2006 the equipment was estimated to have a remaining useful life of 2 years and a residual value of Nil.

Accounts are prepared on 31st December and depreciation provided on a straight line with proportionate change in the year of acquisition.

Required:-

- (i) Compute the initial cost of the equipment (2 marks)
- (ii) Depreciation charge for each of the year ending 31st December 2004, 2005,2006 and 2007 (4 marks)
- (iii) Prepare extracts of the Income statement and balance sheet (5 marks)

QUESTION FIVE

- (a) G Corporation, a manufacturer of air conditioners sold 100 units to GP Company on November 17, 2006. The units have a list price of shs. 5,000 each but GP was given a 30% trade discount. The terms of sale were 2/10, n/30.

Required:

- (i) Journal entries to record the sale on Nov 17 and payment on Dec, 2006 (5 marks)
 - (ii) Journal entries using Gross method and Net method (5 marks)
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- (b) Discuss in detail the two types of discounts (5 marks)
 - (c) Briefly highlight Five types of intangible Assets (5 marks)