



UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAM: BCOM Y2S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 19/12/2012

2.30 P.M. – 4.30 P.M

INSTRUCTIONS:

- **Answer all questions.**
- **Do not write on the question paper.**

QUESTION ONE:

- (a) Explain the difference between measurement and recognition as used in accounting theory. [4 Marks]
- (b) Explain how assets and liabilities are recognized in financial statements. [4 Marks]
- (c) How is materiality related to proper presentation of financial statements? [3 Marks]
- (d) Explain the constraints inherent in the presentation of accounting information. [6 Marks]
- (e) What is the difference between sale with Recourse and sale without Recourse in accounting for receivables. [3 Marks]

QUESTION TWO

- (a) The following are transactions involving inventories during the month of January 2004.
- | | |
|---|------------------|
| 1 st January 2004: Beginning inventory | 100 units @ sh.5 |
| 2 nd January 2004: Purchases | 150 units @ sh.5 |
| 5 th January 2004: Sales | 220 units @ sh.8 |
| 15 th January 2004: Purchases | 200 units @ sh.5 |
| 22 nd January 2004: Sales | 140 units @ sh.8 |
| 31 st January 2004: Ending Inventory | 90 units @ sh.5 |

Required:

Show the journal entries for the transactions using;

- (i) Periodic inventory system [5 Marks]
- (ii) Perpetual inventory system [5 Marks]
(Assume sales and purchases were on credit).
- (b) Distinguish between perpetual and periodic inventory systems. [4 Marks]
- (c) The following is a record of Pervis Ltd transactions for the month of May 2009.

May 1 Balance 400 units @sh.20
May 10 Sales 300 units @sh.38
May 12 Purchases 600 units @sh.25
May 20 Sales 540 units @sh.38
May 28 Purchases 400 units @sh.30

Required:

Determine the profit for the month using LIFO. Assume transactions are recorded on perpetual inventory system. [6 Marks]

QUESTION THREE

- (a) Explain the methods of controlling cash. [4 Marks]
- (b) XYZ Ltd's books show a cash balance at the KCB on 30 Nov 2009 of Sh.20, 502/=. The bank statement covering the month of November shows an ending balance of sh.22, 190. An examination of XYZ Ltd's accounting records and November bank statement identified the following reconciling items:
 - (i) A deposit of sh. 3,680 was mailed on November 30 but does not appear on the bank statement.
 - (ii) Cheques written in November but not charged to November bank statement are
 - Cheque: No 7327 Sh. 150
 - No 7348 Sh. 4820
 - No 7349 Sh. 31
 - (iii) XYZ has not yet recorded Sh. 600 of interest collected by the bank on November 20 on Kericho Co. bonds held by the bank for XYZ.
 - (iv) Bank service charges of Sh. 18 are not yet recorded on XYZ Ltd's books.

- (v) One of XYZ's customer's cheques for Sh.220 was returned with the bank statement and marked "No sufficient funds". The bank treated this bad cheque as a disbursement.
- (vi) XYZ Ltd discovered that cheque NO:7322 written in November for sh.131 is payment of an account payable, had been incorrectly recorded in their books as sh.311.
- (vii) A cheque for Makuti Oil Co. Ltd in the amount of sh.175 accompanied the bank statement that had been incorrectly charged to XYZ co.Ltd.

Required:

Prepare a bank reconciliation statement to reconcile the bank and book balances to corrected cash balance. [16 Marks]

QUESTION FOUR

- (a) Mr. Munyi balance of debtors as at 31 December 2009 is sh.2, 000,000. Mr. Munyi observed that 5% of the debtors are doubtful. At the close of the previous accounting year on 31 December 2008, the debtors stood at sh.1500, 000 and the bad and doubtful debts were believed to be 3%.

Required:

Draw an allowance for bad and doubtful debts account. [2 Marks]

- (b) The motor vehicle account of XYZ as at 1/1/03 was sh.8000, 000. The accumulated depreciation as at that date was sh.3000, 000. On 30th June an item of motor vehicle bought on 1/1/02 at a cost of sh.3000, 000 was sold at sh.2500, 000. It is the company policy to charge depreciation proportionate to time at 25% per annum on cost.

Required:

- (i) Motor vehicles account [2 Marks]
- (ii) Accumulated depreciation account [2 Marks]
- (iii) Depreciation account [2 Marks]
- (iv) Disposal account [2 Marks]