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**University Examinations 2014/2015**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3225: INTERMEDIATE ACCOUNTING I**

**DATE: APRIL 2015 TIME:** $2 $**HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions. Be neat and orderly*

**QUESTION ONE (30 MARKS)**

The following information was extracted from the books of Mwariama Company on 31.12.14

 Dr (shs) Cr(shs)

Sales 8,200,000

Buildings –Office 1,000,000

Debtors 400,000

Motor vehicles 1,500,000

Purchases 2,500,000

Creditors 600,000

Administrative expenses 950,000

Stock 1.1. 14 500,000

Selling and distributions costs 435,000

Land 2,000,000

Equipments 1,000,000

Fixtures and fittings 800,000

Plant & Machinery 1,000,000

Investment property 4,000,000

Rental income 1,000,000

Finance costs 300,000

Ordinary share capital

Capital shs. 20 par value 5,000,000

10% redeemable preference

Shares , shs 20 par value 2,000,000

15% , 5 year Bank loan 2,000,000

Cash 250,000

Other incomes 735,000

Building – warehouse 1,400,000

Bank 500,000

Short term investments 1,000,000

 24,035,000 19,535,000

**Notes and other information:**

1. Mwariama ltd was formed on 30.10.13 and incorporated on 1.1.2014 and commenced trading immediately.
2. Stock as at 31.12.14 shs. 600,000
3. Company depreciates its assets as follows and all of which were acquired on 1.1.14.

Buildings 2% p.a on cost

Plant & machinery 10% p.a on reducing balance.

Equipment, fixtures and fittings 12 ½ % p.a on reducing balance.

Motor vehicles 20% on reducing balance

1. Short term investments represents shs 1,000,000 which was invested in GOK one year Treausury Bills at a rate of 12% p.a on 1.3.2014. interest has not been accrued in the books of accounts.
2. Depreciation of building, office equipment, fixtures and fittings is charged to administrative expenses and depreciation of buildings, warehouse, plant and machineries and motor vehicles is charged to selling and distribution expenses.
3. At the close of books on 31.12.14 the company made a provision of 55 for bad and doubtful debts and charged the provision to selling and distribution expenses. The provision has not been recognized nor recorded in the books of accounts.
4. A valuation of assets carried out at the end of the year saw land & buildings yield new values as follows;

Asset Valuation amount in shs as at 31.12.14

Land 2,750,000

Buildings –office 1,200,000

Buildings –warehouse 1,800,000

Investment property 3,700,000

**Required:**

Showing all your workings clearly, prepare for Mwariama Ltd.

1. Statement of comprehensive income for the year to 31.12.2014. (10 Marks)
2. Statement of financial position as at 31.12.2014 (8 Marks)
3. Differentiate between an investment property and financial investments as used in accounting for assets. (2 Marks)
4. Distinguish between sum of digits as a method of estimating depreciation from reducing balance method. (2 Marks)
5. Explain briefly why the asset is not accorded depreciation in the books of accounts.

(3 Marks)

1. Distinguish between; (6 Marks)
2. Depreciation and amortization
3. Financial assets and biological assets
4. Revaluation and impairment.

**QUESTION TWO (20 MARKS)**

Two sisters Makena and Amina operate a partnership, Mrembo business which imports and sells beauty products in wholesale. Purchases and sales for the year 31.12.14 were as follows:

January – April 2014

Bought 4200 cartons at shs. 3,000 per carton

Sold 4000 cartons at shs. 4500 per carton

May – August 2014

Bought 7800 cartons at shs 3300 per carton sold 7600 cartons at sh 4800 per carton.

September – December 2014

Bought 13000cartons at shs 3800 per carton.

Sold 13200 cartons at shs 5600 per carton

Selling prices includes 16% value added tax. During the year ended 31.12.14 the partnership incurred the following costs and lorries.

 Shs

Employee salaries 2,400,000

Telephone & postages, printing

Advertising 1,210,000

Electricity and water 96,000

Licences & statutory charges 324,000

Rates and rent 1,240,000

Repairs and maintenance 300,000

Motor vehicles expenses 1,450,000

Donations to orphan children

Home 400,000

Carriage inwards 900,000

Foreign exchange

Fluctuation courses 600,000

Discounts allowed 400,000

Bad debts expenses 720,000

Bank charges & commissions 950,000

Legal expenses 420,000

Insurances 1,200,000

Depreciation of assets 400,000

General office expenses 1,200,000

Taxes (VAT) 12,000,000

**Required:**

1. Using FIFO method of stock valuation determine the value of the closing stock. (4 Marks)
2. Highlight the criteria used to determine the value of the closing stocks. (2 Marks)
3. Computer the net income for the partnership for the year to 31.12.14 (10 Marks)
4. Differentiate between FIFO (First in,First out) and LIFO (Last in,First out) as methods of accounting for closing values of stocks. (4 Marks)

**QUESTION THREE (20 MARKS)**

The following information was found in the books of Jumbalo ltd as at 1.4.14

**Assets Cost Depreciation Depreciation**

 **Shs 000 shs Rate % and policy**

Motor vehicles 9,000 4392 20% p.a reducing balance

Premises 25,000 1500 2% p.a on cost

Plant & machineries 12,000 3600 10% p.a on cost

Equipments 2,000 542 10% p.a reducing balance

Computers 1,000 900 4 years sum of digit

Investment property 8,000

Investments 3,000

Patents & franchise 2,000 600 10% p.a on cot

Jumbalo Ltd commenced trading on 1.4.11. During the year to 31.3.15, the following events occurred.

* On 30.6.14 a motor vehicle with an original cost of shs 4,000,000 was sold for shs 2,000,000 in cash
* A plant item with an original cost os shs 3,000,000 was sold on 30.9.14 for shs 1, 980,000.
* On 30.12.14 the company bought a new vehicle for shs 4,500,000 in cash. New computers were also bought for shs 420,000 in cash.
* Investments with an original cost os shs 1,800,000 were disposed off on 30.12.14 for 1,700,000 while the investment property was valued to a new value of shs 10,000,000.
* On 28.2.15 a new small office block extension of the premises was completed at a cost of shs 1,750,000.

**Required:**

Schedule of Assets movements and balances for the year to 31.3.15. (20 Marks)

**QUESTION FOUR (20 MARKS)**

Differentiate between;

1. (i) Tangible Assets and non current Assets (2 Marks)

(ii) Financial Assets and current Assets (2 Marks)

1. Discuss the merits of lease as a method of acquiring assets. (4 Marks)
2. The following information was extracted from the debtors Accounts of Masala Ltd.

Account 31.3.13 31.3.14 31.3.15

 Shs shs shs

Debtors 300,000 450,000 370,000

Bad debts written off 15,000 30,000 20,000

It is the policy of the company to maintain a provision of 10% p.a for bad and doubtful debts, on the remaining debtors

**Required :**

1. Prepare debtors account for each of the three years. (6 Marks)
2. Provision for bad and doubtful debts Account as at 31.3.15 (6 Marks)

**QUESTIONS FIVE (20 MARKS)**

The following are the balance sheets of Divo Ltd as at 31.12.13 and 31.12.14

 31.12.13 31.12.14

Non current Assets shs 000 shs 000

Land & Buildings 1,200,000 1,600,000

Plant & Machinery (Net) 280,000 300,000

Furniture & Fittings (Net) 60,000 54,000

 1,540,000 1,954,000

Current Assets

Stocks 218,600 355,800

Debtors 310,800 302,500

Bank 57,600 31,400

 587,000 689,700

Current Liabilities

Creditors 180,500 212,300

Proposed dividends 110,000 145,000

Taxation 140,000 200,000

 430,500 557,300

Net current Assets 156,500 132,400

 1,696,500 2,086,400

Equities and non current

Liabilities

Ordinary share capital

Shs 20 par value 1,000,000 1,200,000

Share premium 150,000 170,000

Assets revaluation reserve - 400,000

Profit and loss 296,000 316,500

Debentures 250,000 \_\_\_-\_\_\_\_\_

 1,696,500 2,086,400

**Notes**

* Net profit before tax for the year ended 31.12.14 was shs 364,900,000.
* Machine costing shs 35,000,000 was purchased during the year.
* There was no disposal of fixed assets during the year.

**Required:**

Cash flow statement for the year to 31.12.2014 (20 Marks)