



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE OF

BACHELOR OF COMMERCE

COURSE CODE: HBC 2201

COURSE TITLE: INTERMEDIATE ACCOUNTING 1 **TIME:**

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes *Zero tolerance to examinations irregularities*

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QUESTION ONE

a. The following table relates to purchases and sales of beatex ltd for one month

Date	Transaction	Quantity in units	Cost in sh
Oct 1	Opening inventory	7000	20
Oct 3	Purchases	4500	25
Oct 8	Sales	10000	
Oct 15	Purchases	12000	28
Oct 19	Purchases	4000	26
Oct 24	Sales	8000	
Oct 27	Purchases	4000	30
Oct 29	Sales	8500	
Oct	Purchases	6500	29

Required: Using average cost method calculate cost of sales and closing inventory under

- i. Periodic system
- ii. Perpetual inventory system (12 marks)

b. Explain four qualitative characteristics of financial statements (8marks)

c. Windway ltd purchased an existing factory for a single sum of sh 5,600,000. An independent valuation of the assets was as follows:

Land	3,000,000
Buildings	1,250,000
Machinery	1,050,000
Equipment	1,6,00,000
Lorry	1,500,000

Required:

Allocate the lump sum price to each item (5 marks)

d. Enumerate any five types of intangible assets (5marks)

QUESTION TWO

. Midline ltd sell their product offering 30 days credit to customers. Uncollectible amounts are estimated by accruing a monthly charge to bad debt expense at 3%of credit sales. At the end of the year the allowance for uncollectible account is adjusted on an ageing of accounts receivable. The company began in 2012 with the following balances in its accounts

Accounts receivable sh 457,500

Allowance for uncollectible accounts sh 38,250

During the year, credit sales amounted to sh 1,950,000. Cash collected was 1,875,000. Actual write offs were sh 37,500. An ageing of accounts receivable indicates a required allowance of sh 60,000.

Required:

- Calculate the balance in accounts receivable and uncollectible accounts at the end of 2012 (10 marks)
- Calculate the bad debt expense (4 marks)
- Prepare journal entries for monthly accrual of bad debts, write off of receivables and bad debt expense (6 marks)

QUESTION THREE

- Jased mining company operates a coal mine. The company paid sh 2,000,000 for the mining site. and spent an addition sh 1,200,000 for exploration. And sh 1,300,000 to prepare the mine for extraction..After the coal is extracted in three years, the company is required to restore the land to recreational use. The company has provided the following cash flow possibilities

Cash flow	probability
500,000	20%
300,000	25%
400,000	30%
600,000	25%

To aid extraction , the company purchased mining equipments for sh 800,000. The risk free interest rate is 10%

Required:

- i. Determine the capitalized cost of the coal mine (12marks)
- ii. Journal entries to record the cost of mine and equipment (2marks)
- b. Discuss three ways receivables can be used as a source of finance (6marks)

QUESTION FOUR

The following are extracts from the cashbook of Mali mingi ltd

CASH BOOK

DATE	DEBIT	AMOUNT	DATE	CREDIT	AMOUNT
Dec 1	Balance b/f	6,838,000	Dec 8	Blown	924,000
Dec 7	Flynne	202,000	Dec 15	Hourse	42,000
Dec 19	Gray	88,000	Dec 28	Errant	418,000
Dec 30	Walter	638,000	Dec31	Balance c/d	6,874,000
Dec31	Smith	492,000			
TOTAL		8,258,000	TOTAL		8,258,000

BANK STATEMENT

DATE	DETAILS	DEBIT	CREDIT	BALANCE
Dec 1	Balance b/f			6,838,000
7	Cheque		202,000	7,040,000
11	Blown	924,000		6,116,000
20	Hourse	42,000		6,074,000
22	Cheque		88,000	6,162,000
31	Credit transfer Graham		186,000	6,348,000
31	Bank charges	94,000		6,254,000

Required:

- i. Updated cash book (5marks)
- ii. Bank reconciliation statement (5marks)

- c. Distinguish between:
- i. operating lease and finance lease (4marks)
 - ii. Depreciation and depletion of assets (4marks)
 - iii. Asset revaluation and asset retirement obligation (2marks)