

EGERTON



UNIVERSITY

UNIVERSITY EXAMINATIONS

KISII UNIVERSITY COLLEGE

MAIN CAMPUS

FIRST YEAR EXAMINATION FOR THE AWARD OF THE DEGREE IN
BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENTFIRST SEMESTER 2010/2011(AUGUST-DECEMBER, 2011)BBAM, 211 : INTERMEDIATE ACCOUNTING 1

STREAM: BBAM, Y2S1

TIME: 2 HOURS

DAY: FRIDAY 11.00 A.M. - 1.00 P.M.

DATE: 16/12/2011

INSTRUCTIONS

1. Do not write anything on this paper
2. Answer question one and any other two questions

Question One

- a. The users of financial statements are those groups identified as having Reasonable right to the information and whose information needs Should be recognized.

Explain briefly why each of the following groups identified are interested In financial statements of a business enterprise.

- i. The shareholder (2mks)
 - ii. The creditors (2mks)
 - iii. The employees (2mks)
 - iv. The government (2mks)
 - v. The members of the public (2mks)
- b. Critically discuss why the users of financial statement consider a cash flow statement as a very important document in business world giving out two (2) examples. (10mks)
- c. From the following balance sheet prepare a cash flow statement Using indirect method.

Required:

- a. Make adjustments in the cash book and show the adjusted cash Book balance. (7mks)
- b. A bank reconciliation statement as 31 October 2009. (7mks)

Question 3

Yusuf Oloo runs a business in Gikomba market, dealing in the sale of second hand T-shirts for men. He recently completed a part-time bookkeeping course at Rapid Promotion Commercial College, where among other things, he learnt about the maintenance of stock records. He now wishes to apply this knowledge to his business, and is particularly interested in maintaining a perpetual inventory system, using either FIFO or LIFO as a basis for stock valuation.

Currently, Yusuf does not maintain formal books of account. However, existing records show that at the end of 2010 200 items were in stock. Further investigation reveals that the make-up of this stock is based on a receipt of 500 items in September 2010 priced at Kshs. 50 of which 400 had been sold before the end of that year, plus 50 from a delivery in early 2010 when the cost was Kshs. 40, plus 50 purchased in 2008 when the cost was only Kshs. 20

Between January and June 2011, the following transactions took place:

January - sold	150	@	80	each
February - received	1000	@	50	each
- Sold	400	@	85	each
March sold	350	@	90	each
April Received	1500	@	55	each
Sold	900	@	90	each
May received	650	@	60	each
Sold	200	@	95	each
June sold	1000	@	100	each

Yusuf employs 2 assistants whose monthly wages amount to Kshs. 2,500 in Total. Additionally he pays a monthly rent on his stall of Kshs. 1000 and has Withdrawn a total of Kshs. 14,000 to meet his personal commitments.

Required

- a. To calculate the stock valuation at 30 ^{June} 2011 using both the FIFO and LIFO methods. (12mks)
- b. To calculate Yusuf's net profit for the six months to 30 June 2011 using both methods of valuation for opening and closing stocks. (8mks)

	Dec. 2007	Dec. 2008
Issued share capital	18,000	23,000
Retained profits	7,500 [↑]	9,200 [↑]
10% debentures	6,000	7,500
Tax payable 1 st Jan.	2,900	3,200
Trade & Expense creditors	3,200	3,400
Proposed dividends (gross)	500	600
Total	38,100	46,900
Fixed assets @ cost	23,000	25,000
Less depreciation	5,650	6,200
	17,350	18,800
Stocks	12,000	14,695
Debtors	4,200	4,150
Balance @ Bank	4,550	9,255
	38,100	46,900

NB

During the year fixed assets were purchased at a cost of Kshs. 5,600
 Fixed assets cost Kshs. 3,600 were disposed off for Kshs. 2,500.
 The book value of this assets was Kshs. 1,500 and the profit has been
 included in retained profits. (10mks)

Question 2

- Define the term bank reconciliation statement and indicate its three main functions. (6mks)
 - The cash book column of Abantu Traders co. Ltd had an overdraft of Kshs. 532,400 as at 31st October 2009 which did not agree with balance as per bank statement of the same date on checking through relevant records and documents, some details were established as listed below:
- A debtor deposited Kshs. 254,500 to the bank direct
 - Standing orders of Kshs. 13,800 have been effected by the bank
 - Bank charges and interest on overdraft as per the bank statement amounted to Kshs. 12,450 and Kshs. 135,480 respectively.
 - Insurance premium of the mortgaged property amounting to Kshs. 35,485 was paid direct by the bank.
 - Cheques drawn by the Company amounting to Kshs. 745,964 had not been presented for payment as at 31 Oct. 2009 *unpresented cheques*
 - Cheques for Kshs. 354,890 which were banked on 29 October 2009 were credited by the bank on 5 November 2009 *uncredited cheques*
 - A cheque for Kshs. 74,500 was debited by the bank as Kshs. 47,500
 - The payments side of the cash book was under cost by Kshs. 32,000
 - The bank had debited the account with another customer's cheque of Kshs. 27,500 but had not yet corrected the mistake of 31 October 2009

Question 4

- a. A company makes a provision for bad debts at the rate of 5% of debtors (receivables), and provision for discount allowed at 2%. The debtors balance as at 31st Dec. were given as under for 3 (three) successful years.

Year	Debtors
2007	100,000
2008	120,000
2009	80,000

Required:

Show necessary entries for three years and balance sheet extract. (10mks)

- b. Write explanatory notes on the following accounting concepts:

- i. Prudence
- ii. Intangible
- iii. Good will -
- iv. Provision of bad debts.

(10mks)