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University Examinations 2024/2025

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

BFC 3225: INTERMEDIATE ACCOUNTING I

DATE: JANUARY 2025

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *three* questions

QUESTION ONE (30 MARKS)

- a) "Qualitative characteristics are the attributes that make information provided in financial statement useful to users". Briefly explain the four main qualitative characteristics of financial statements with reference to shareholders of a company (8 marks)
- b) You are involved in the review of financial statements of various companies and encounter the following situations;
 - i) John Kamau, the manager of Utawala store ltd, bought computer for his own use. He paid for the computer by writing a cheque on the Utawala store ltd cheque account and charged the "office equipment' account.
 - ii) An accounting institute, in accounting guide for brokers and other dealers in securities, stated that "the trading and investment accounts... should be valued at market or fair value for financial reporting purposes..." the

brokerage firm of urnma and umma ltd continues to value its trading and investment accounts at cost or market, whichever is lowe

- iii) Alfa & Genz ltd, a manufacturing company, buys its merchandise by truck and trainload. Alfa and Genz ltd does not defer any transportation costs in computing the cost of its ending inventory. Such cost although varying from period to period, are always material in amount.

Required:

For each of the foregoing situations, list the assumptions, principles or constraint that has been violated, discuss the nature of the violation and recommend the appropriate treatment. (NIB: more than one violation may have occurred, but you are required to list for each case only the most applicable main violation. (10 marks)

- c) Mawazo ltd leased a machine from Best Machine ltd. The terms of the lease were as follows:

Inception of lease	1 November 2018	
Lease term	4 years at shs. 78,864,000 per	
Present value of	annum payable in arrears	
minimum lease payments		Shs 250,000,000
Useful life of asset		4 year

Required:

- i) Calculate the interest rate implicit in the lease (7 marks)
Use the table below which shows the present value of sh1 per annum receivable or payable at the end of each year for n years.

li extracts from the financial statements of Mawazo ltd, for the year ended 31st October 2019 (5 marks)

QUESTION TWO (20 MARKS)

The following information relates to item P1<003 stocked by Star products Ltd for the month of April 2023:

	Receipts	Issues	
Date	Units	Units	Unit cost (Sh)
April 13	2,400		18
4		3,200	
6	2,600		20
12		2,700	
14	3,000		22
18	2,800		21
20		2,200	
22	2,600		23
25		3,800	
26	3,100		24
27	2,500		25
28	3,200		26
29		6,900	

The closing balance for March 2022 was a batch of 3,000 units received at a unit price of Sh 19

Required:

- Stores perpetual inventory record for item PK003 for May 2000 under LIFO system of stores issues (14 marks)
- Closing stock valuation (6 marks)

QUESTION THREE (20 MARKS)

- Briefly explain why the bank statement balance is different from the cash book balance (6 marks)

- b) On 31st December 2022 the cash book of H. Njeri showed a balance at the bank of Sh Sh8, 100. The bank statement however showed a balance of Sh 6,700. Going through the bank statement she found out that:
- (i) A cheque received from Taifa Ltd on 1st December for Sh 600 and entered into the cash book did not appear on the bank statement
 - (ii) A cheque paid to E. Kamara Sh 7000n 25th December had not been presented
 - (iii) A cheque received from N Njiru on 24th December Sh 600 and entered into the cash book was returned dishonored. No entry in this regard was recorded I the cash book
 - (iv) Bank charges amounting to Sh 100 had not been entered into the cash book
 - (v) The bank received directly Sh 1000 from E.A.B.L as dividends on 18th December on behalf of H. Njeri
 - (vi) A chequc payment of Sh 2000 to Olivia had been entered in error Sh200 in the cashbook Required
- (a) Make the necessary entries to update the cash book (8 marks)
 - (b) Prepare a bank reconciliation statement for H. Njeri for the month of December 2022 (6 marks)

QUESTION FOUR (20 MARKS)

- a) Briefly explain the objectives and IAS 7 (Cash flow statements). (6 marks)
- b) The following are extracts from the financial statements of Daima ltd as at 31st March

	2023	2022
Sh. "000"	Sh. "000"	Sh. "000"
Non current assets:		
Goodwill	2800	2900
Freehold land and building	16800	12000
Plant and machinery(NBV)	5860	6350

Investment at cost	3600	3750
	29060	25000
Current assets		
Stocks	10050	8700
Account receivable	6140	7800
Investments	1710	840
Cash at hand and bank	200	430
	18100	17770
Current liabilities		
Bank overdrafts	(2300)	(6540)
Account payable	(5850)	(5250)
Proposed dividends	(450)	(380)
Taxation	(820)	(600)
	9510	12770
	8590	5000
Net current assets	37650	30000
15% debentures	(7500)	(9000)
	30150	21000
Capital and reserves:		
Authorized issued and paid sh 10 ordinary shares	18000	15000
Share premium	1500	750
Revaluation reserve	4500	-
Retained profit	6150	5250
	30150	2100

The profit and loss appropriation account for the year ended 31st march 2023 is given below:

	Sh. "000"	sh." 000"
Net profit before tax		2400
Less corporation tax		900
Profit after tax		1500
Dividends	interim (paid)	150
	Proposed (paid)	450
		600
		900

The following additional information is provided

- Profit for the year is arrived at after charging:

	Sh. "000"
Depreciation on plant and machinery	1150
Good will amortization	420
- During the year, plant with a net book value of sh. 750,000 was sold for sh 1470000. The plant had originally cost sh 3000,000
- The investment portfolio was reduced by selling one block of shares at profit of sh 160000

Required:

Cashflow statement in accordance with IAS7 (14 marks)

QUESTION FIVE (20 MARKS)

Mawazo Ltd hires out individuals plant on long term operating leases. On 1st January 2015 it entered into a seven year lease on a mobile crane. The terms of the lease are sh.1750000 payable on 1st January 2015, followed by six rentals of sh 700000, paid on 1 Jan 2015 to 2022. The crane will be returned to Mawazo on 31 Dec 2022. The crane cost sh 880000 and has a 25 year useful with no residual value.

Required:

- (a) Calculate the annual rental income that will be claimed by Mawazo ltd
(5 marks)
- (b) Prepare extracts from the income statement and the statement of financial
position (5 marks)
- (c) Explain the advantages and disadvantages of leases (10 marks)