



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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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

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

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#### QUESTION ONE (30 MARKS)

- Discuss the importance of Financial Accounting in the Public Sector today. (8 Marks).
- Explain the importance of regulatory framework in accounting discipline. (4 marks)
- The following information was extracted from the books of Rada Ltd as at 31<sup>st</sup> August, 2023:

	Dr.	CR.
	Shs.	Shs.
Stock 1.9.2022	500,000	
Buildings	16,000,000	
Debtors	11,900,000	
Purchases	28,000,000	
Administration Expenses	10,160,000	
Creditors		4,180,0000

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Miscellaneous income		6,650,000
Sales		62,000,000
General Reserves		1,000,000
Land	20,000,000	
Retained Earnings		5,000,000
Bank	13,240,000	
Cash	240,000	
Share capital 1,000,000 ordinary shares shs. 20 par value		20,000,000
10% preference share shs 20, per value 500,000 shares		10,000,000
15%, 5 year Bank loan		10,000,000
Furniture' s	2,500,000	
Plant & Machineries	14,000,000	
Sales & Marketing expenses	1,790,000	
	<b>118,830,000</b>	<b>118,830,000</b>

#### **Other transactions**

- i. Stocks as at 31.8.2022 shs. 600,000
- ii. Provide shs. 2,000,000 depreciation on fixed assets.
- iii. Included in Account of sales is shs. 8,500,000 on account of VAT (value added tax) and no entry has been made in the books.
- iv. Interest on Bank loan has also accrued and has not been paid Shs.1,175,000 and shs.750,000 to be accrued as director's fees and audit fees
- v. Corporate tax to be determined at 30%.
- vi. On 30.6.2023 a Kenyan obtained orders in court to be paid shs.1,750,000 for injuries by company vehicle at 12% interest. As at the close of books the company had not viii. discharged this liability. No adjustments had been made in the books.
- vii. As at 31.8.2023 warranty claims against products defects amounted to shs. 1,320,000. No adjustments had been made in the books of the company.
- viii. No dividends were declared but directors proposed to transfer shs. 2,000,000 to General

Reserves.

- ix. Salaries, Items of NSSF, NHIF, Income tax, Helb, SACCO remittances, union dues amounting to Sh300,000 for the month of August have not been adjusted in the books nor remitted.

**Required:**

- a) Income statement for the year ended 31<sup>st</sup> August, 2023. (9 Marks)  
b) Balance sheet as at 31.8.2023. (9 Marks)

**QUESTION TWO (20 MARKS)**

On 1.1.20, the assets of Mariara Ltd were as follows:

Assets	Original Cost Shs 000	Accumulated Depreciation Shs 000	Net book Value Shs 000
Freehold land	20,000	-	20,000
Buildings	35,000	14,000	21,000
Plant and Machinery	87,540	33,820	53,720
Vehicles	64,700	21,100	43,600
Furniture and fittings	12,500	3,200	9,300
Bank			10,000

Straightline rates of depreciation on cost, used to date were 10 % p.a, for plant and machinery, 20% for vehicles, 12 <sup>1</sup>/<sub>2</sub> for furniture and 2% for buildings.

Other transactions as at 31.12.20

- (i) Freehold land and buildings were revalued during the year at Sh42.5m and 57million respectively.
- (ii) An item of machinery bought on 1.1.2016 for Shl 0.5million is now recognized to have a useful life of 20 years.

- (iii) A vehicle bought on 1.6.18 for Sh8.5m was traded is at a value of 6.4m on 1.10.20 in part exchange for a new vehicle costing Sh14million. Difference paid by cheque.
- (iv) Included with the furniture and fittings is an item which originally costl .5million and which is already depreciated fully and is not expected to realize anything upon dismissal.
- (v) A vehicle which was bought on 1.3.2018 for Sh2,200,000 was involved in an accident on 1.11.2020 and became a complete write-off. The insurance company paid Shs1,200,000 in compensation by cheque. Another vehicle bought on 1.5.18 for 4m was disposed for Shs2.5m in cash on 1 .4.20
- (vi) On 31 July 2020, Mariara Ltd bought an item of plant for Shs5,000,000 by cheque.
- (vii) Furniture bought on 1.5.17 for Sh3m was donated to Kaaga School for mentally disabled on 1.9.20

**REQUIRED**

- (a) (i) Schedule of plant assets movements and balances suitable for inclusion in the Company's published accounts. (8 Marks)
- (ii) Disposal account for the year 2020. (7 Marks)
- (b) Explain why:
  - (i) Enterprises do not provide depreciation to freehold land. (2 Marks)
  - (ii) Straightline method of determining depreciation is the most commonly used method worldwide. (3 Marks)

**QUESTION THREE (20 MARKS)**

- a) Nyaga Ltd acquired a motor vehicle on 2.1.21, at an agreed price of Sh1,500,000 to be paid on 2<sup>nd</sup> January 2022. The market rate of interest is 12%.

**Required:**

Journal entries to record the above transaction in the books of Nyaga Ltd on 2.1.21. (5 Marks)

b) On 1.9.2020, Nyaga Ltd placed an order with Mugi brokers to purchase 100, shares Shs1,000,000 bonds in Timau Orchards. Timau Orchards bonds have face amount of 100million, 12% interest payable half yearly on 30.6 and 30.12 and are dated 1.7.2020

Mugi brokers purchased the bonds on 1.9.2020 at 102% plus accrued interest, and paid brokerage fees of Sh0.2 million. On 2.1.21, Nyaga Ltd sold 60, Shs1,000,000 bonds at 103.5 plus accrued interest and paid 0.06million as brokerage fees.

On 1<sup>st</sup> July 2021, Nyaga Ltd sold the remaining bonds at 104% plus accrued interest paying a brokerage fees of Shs0.04m. The company financial year ends on 31<sup>st</sup> August.

### **REQUIRED**

- i) Journal entries to record investment in Timau Orchards bonds in the books of Nyaga Ltd. (5 Marks)
- ii) Journal entries to record receipt of interest on 30.12.20 and on 30.6.21. (6 Marks)
- iii) Journal entries to record sale of the above short term investments in Timau Orchards bonds, showing gains or losses realized. (4 Marks)

### **QUESTION FOUR (20 MARKS)**

- a) Critically, highlight four accounting concepts or factors fundamental to preparation of accounts and financial statements. (4 Marks)
- b) On 2.1.2016, Newton Ltd acquired a machine for Shs770,000. The Machine had an estimated salvage value of Sh50,000 and an economic useful life of 5 years, and can operate for 100,000 runs before replacement. Machine operations for the 5 years were as follows

Year	Runs
2006	20,000

2007	25,000
2008	15,000
2009	30,000
2010	10,000

Newton Ltd closes its books on 31<sup>st</sup> December for each trading period.

Compute the annual depreciation charge, using:

- (i) Rate of usage (activity) method (4 marks)
- (ii) Sum of the years digits method (4 Marks)
- iv) Critically, differentiate between amortization and depreciation. (2 Marks)
- v) Highlight two conceptual merits for providing depreciation on non-current assets. (2 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Discuss two systems of stock valuation (4 marks).
- b) Brake and Lace have been partners in business for one year selling diskettes branded ‘Wicked’. Data relating to purchases and sales of stocks for the past for the past 6 months is given below

Date	Quantity	Unit cost	Date	Quantity	Unit cost
January 2	90	600	Jan 28	72	775
February 5	90	700	Feb 28	48	800
March 3	30	750	March 30	30	800
April 4	30	750	April 29	55	900
May 5	60	800	May 31	40	900
June 6	75	800	June 30	60	900

**Additional information:**

- Bosire uses fifo method while Kendi uses lifo method in stock valuation.
- Monthly rent for the business was Ksh. 5,000
- Salaries and wages amounted to sh. 8,000 per month

4. The Partners' profit-sharing ratio is 1:2 for Brake and Lace respectively

**Required:**

Determine the share of profit for each partner using the two methods as at 30<sup>th</sup> June

(10 Marks)