KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS
2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 211

COURSE TITLE: INTERMEDIATE ACCOUNTING I

STREAM: Y2S1

DAY: WEDNESDAY

TIME: 2:00 – 4:00 P.M.

DATE: 24/03/2010

INSTRUCTIONS:

1) This paper contains four questions. Answer all questions.
2) Show all the necessary workings.
3) Do not write on the question paper.
4) You can use the last page of the answer booklet for your rough work. Cancel the rough work.

PLEASE TURNOVER

QUESTION ONE. (25 MARKS)

a) What is the distinction between accounting concept and accounting policies? Use an example of each to illustrate your answer. **(5 marks)**

b) The four fundamental accounting principles used in preparation of accounting books of accounts and financial reports are.

   i. Going concern principle
   ii. Conservatism principle
   iii. Consistency principle
   iv. Accrual principle

   Required: Clearly highlight the effect of lack of each principle on financial reporting process by a company. **(8 marks)**

c) For accounting information to be useful in decision making it must bear the key qualitative characteristics. However sometimes it is difficult to achieve all the qualitative characteristics when preparing financial reports due to conflict between some of them.

   Required. Explain four areas of conflict between the key qualitative characteristics. **(12 marks)**

QUESTION TWO. (25 MARKS)

a) On 1st October 2007, Manyata Ltd reported the following transactions in tock that occurred during the month of September.

Date	Unit received	Cost/Units (shs)
10th Oct	600	12.5
20th Oct	600	15
25th Oct	600	15

Sales were as follows

Date	units	price /Unit (shs)
14th Oct	550	20
21st Oct	600	20
28th Oct	200	20

At the beginning of the month of September, there were 100 units valued at shs 15 each. At the end of the month the units remaining could be sold at shs 17 per unit. Selling cost per unit was estimated at shs 2.50 per unit.

Required: Value of the closing stock using weighted average method and determine the profit for the month of September. **(15 marks)**

b) The following transactions were extracted from the books of Tamu ltd for the month of January and February 2008.

i. On January 2nd, Tamu Ltd assigned accounts receivable of shs 150,000 to Faida Ltd. Faida Ltd remitted 90% of the receivable as less 2% fee cash advance fee.

ii. On January 31st, Tamu Ltd collected shs 90,450 and paid this amount to Faida Ltd including interest of 1% per month on the unpaid balance.

iii. On February 28th Tamu Ltd collected 51,000 and paid balance owed to Faida plus an interest of 1% on the balance due.

iv. On February 28th, Tamu Ltd transferred the balance of assigned receivables to the accounts receivable ledge.

Required: Record the above transactions in the related ledger accounts and close the ledgers at the end of February. **(10 marks)**

QUESTION THREE

Set out below are the financial statements of Camel Corporation for the year ended 2005.

CAMEL CORPORATION
Balance Sheet
as at December 31, 2005

ASSETS	**1999**	**1998**
CURRENT		
Cash	$ 24,000	$ 33,400
Accounts receivable	89,600	106,300
Temporary investments	80,000	35,000
Merchandise inventory	106,100	122,700
	299,700	297,400
PROPERTY, PLANT & EQUIPMENT	415,000	285,000
Accumulated amortization	54,500	91,000
	360,500	194,000
	$660,200	$491,400
LIABILITIES		
CURRENT		
Accounts payable	$ 64,000	$ 96,400
Unearned revenue	16,000	-
Income taxes payable	49,000	35,000
	129,000	131,400
LONG TERM DEBT		
Bonds payable	175,000	140,000
SHAREHOLDERS= EQUITY		
COMMON SHARES	140,000	140,000
RETAINED EARNINGS	216,200	80,000
	356,200	220,000
	$660,200	$491,400

CAMEL CORPORATION
Income Statement
For the year ended December 31, 2005

Sales	$870,000
Cost of goods sold	425,300
Gross profit	444,700
Operating expenses	
Advertising and promotion	12,200
Amortization expense	28,500
Office supplies	4,200
Repairs and maintenance	18,100
Salaries and benefits	127,500
Utilities	39,000
	229,500
Operating income	215,200
Other items	
Gain on sale of equipment	35,000
Income before taxes	250,200
Income taxes	74,000
Net income	$176,200

Additional data about transactions included in the above financial statements:
1) Cash dividends of $40,000 were declared and paid during 2005
2) Equipment that initially cost $90,000 and had a book value of $25,000 was sold for $60,000 in 2005
3) Equipment was purchased during the 2005 at a cost of $220,000.
4) Temporary investments of $45,000 were purchased during 2005, and are not included in the definition of cash and cash equivalents.
5) Bonds with a face value of $35,000 were issued for cash during the year.

Required:
Prepare the cash flow statement using the indirect method. **(25 marks)**

QUESTION FOUR (25 MARKS)

The broad principles of accounting for plant assets involve distinguishing between capital and revenue expenditure, measuring the cost of assets, determining how they are should be depreciated and dealing wit problems of subsequent measurement and subsequent expenditure.

Required

a) Explain how the initial cost of plant assets should be measured. **(4 marks)**

b) State the three circumstances under which subsequent expenditures on plant assets should be capitalized. **(6 marks)**

c) Mambo Bado Ltd purchased a plant on 1st January 2000 incurring the following costs.

	shs
Purchase price of the asset	250,000
Stamp duty	5000
Legal fees	10,000
Site preparation and clearance	18,000
Own labour to install the plant	10,000
Shipping cost	20,000.

The company received a trade discount of 2% and a further 3% early settlement discount if payment is done within 30 days. The cost of own labour was estimated as above though no cash was paid since there were full time employees who did the installation. It is estimated that the plant will have u useful life of 10 years. All plants are depreciated on reducing balance basis. The residual value is shs 50,000.

Required

i. Determine the value of the building and the depreciation expense for the year ended 2001. **(8marks)**

ii. If the building was revalued on 1st January 2005 at shs 200,000. Determine the depreciation charge, the net book value of the asset for the year ended 31st December 2005. **(7 marks)**