

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: TUESDAY

TIME: 9:00 – 11:00 A.M.

DATE: 08/12/2009

Instructions

- 1) This paper contains four questions
- 2) Answer question one and any other two questions
- 3) Show all the necessary workings.
- 4) Do not write on the question paper.
- 5) You can use the last age of the answer booklet for your rough work. Cancel the rough work.

Question one. (30 marks)

- a) What is the distinction between accounting standard and accounting principle? Use examples to illustrate your answer. **(4 marks)**
- b) Discuss the **four** qualitative characteristics of accounting information **(8 marks)**
- c) Explain two methods of managing the debtors indicating the most appropriate method. **(6 marks)**
- d) Intangible fixed assets with limited economic life should be amortized. Give four factors to consider when estimating the economic life of intangible assets. **(6 marks)**
- e) Explain three to consider when capitalizing subsequent expenditures. **(6 marks)**

Question two

Set out below are the financial statements of Shapcnum Ltd for the year ended 31st December 2008 and comparative figures for 2007.

Shapcnum
Comparative balance sheets For the year ended 31st December 2008
31.12. 2007 31.12.2008

Fixed Assets	shs	shs	shs	shs
Property plant and equipment			350,000	460,000
Provision for depreciation			<u>180,000</u>	<u>260,000</u>
Net book value			170,000	200,000
Intangible assets			80,000	75,000
investment			-	<u>50,000</u>
Total			<u>250,000</u>	<u>325,000</u>
Current assets				
Inventories	100,000	80,000		
Accounts receivable	21,000	31,000		
Allowance for doubtful debts	(1,000)	(1000)		
Cash and cash equivalents	<u>14,000</u>	<u>68,000</u>		
Total current assets	<u>134,000</u>	<u>178,000</u>		
Current liabilities				
Accounts payable	<u>(10,000)</u>	<u>(17,000)</u>		
Net current liabilities			124,000	161,000
Capital employed			<u>374,000</u>	<u>486,000</u>
FINANCED BY				
Equity				
Ordinary share capital of shs 1			191,000	212,000
Retained earnings			<u>83,000</u>	<u>84,000</u>
Total owners equity			274,000	296,000

Long term loans				
Bonds payable	100,000	140,000		
Convertible bonds payable	-	50,000		
Total long term loans			<u>100,000</u>	<u>190,000</u>
Total equity and long term loan			<u>374,000</u>	<u>486,000</u>

SHAPCNUM LTD

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2008

Sales		675,000
Cost of goods sold		<u>(405,000)</u>
Gross margin		270,000
Other expenses		
Interest expense	20,000	
Depreciation	120,000	
Amortization of intangible assets	5,000	
Marketing and administrative expenses	80,000	
Total		<u>(225,000)</u>
Net income		<u>45,000</u>

Additional information

- A building with an original cost of shs 120,000 and accumulated depreciation of shs 40,000 was sold for its carrying amount.
- Additional equipments worth shs 100,000 was acquired.
- The convertible bonds were issued in December 31st 2008 on the company's common stock.
- Doubtful accounts expense for the year 2008 was \$1000 and this has been included in administrative and marketing cost.
- There is no taxation

Required

- Prepare a cash flow statement for the year ended 31st December 2008 in accordance with the IAS 7, the indirect method. **(15 marks)**
- Discuss the reasons why a Shapcnum reported a higher figure in the bank than its net income for the same period. **(5 marks)**

Question three

- a) Kamenys limited had a debtors balance as at 31st December 2008 of shs 50,000. While auditing the financial statement of Kamenya ltd for the current financial year, you found out that the following items are included in the trade accounts receivable.

	shs
i. Customers account with credit balance	2950
ii. Receivables from employees	12,500
iii. Advance to employees	2,200
iv. Customers accounts ascertained to be uncollectible	2,880
v. Doubtful debts	5,000
vi. Discount forfeited by 31 st December 2008	6,000

The company uses the net method of recording receivables and a combination of provision and write off methods of valuation.

Required: Statement showing the necessary adjustments in order to determine the correct value of debtors. (10 MARKS)

- i What are the factors to consider when carrying out stock count and stock valuation? (3 marks)
- b. Dexter company sells beds. The perpetual inventory balance as at 31st December 2008 was kshs19, 600. Some events that occurred near the end of the year were as follows.
- i. Beds shipped to a customer on January 2nd year 2009 at a value of kshs 5000 are included in the inventory on December 31st 2008. The sale was recorded in the year 2009.
 - ii. Beds costing kshs 90,000 received on December 30th year 2008 were recorded as been received in January 2nd 2009.
 - iii. Beds received costing kshs 1,900 were entered twice.
 - iv. Beds shipped to a customer “FOB shipping point” on December 28th 2008 with a sales value of 10,000 were not recorded as a sale until January 3rd, 2009.
 - v. Beds on hand that cost kshs 2,300 were not recorded in the accounting records in 2008
 - vi. Dexter company gross margin on all sales is 12.5%.

Required :Prepare a working paper to determine the correct value of closing stock as at 31 December 2008. (7 marks)

Question four.

- a) Explain how the initial cost of a tangible fixed asset should be measured. (4 marks)
- b) What are the conditions to be met by a company that decides to revalue its fixed assets?
(3 marks)
- c) A company purchased a plant on 31st December 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 labor 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 labor 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 a useful life of 20 years. All plants are depreciated on straight line basis. The residual value is nil.

Required

- a. Determine the value of the building and the depreciation expense for the year 2001.
(8 marks)
- b. If the building was revalued on 1st January 2007 at shs 250,000. Determine the depreciation charge, the net book value of the asset and the gain on revaluation for the year ended 31st December 2007.
(5 marks)