

KABARAK



UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 211

COURSE TITLE: INTERMEDIATE ACCOUNTING I

STREAM: Y2S1

DAY: FRIDAY

TIME: 2.00 – 4.00 P.M.

DATE: 27/03/2009

INSTRUCTIONS:

- Answer Question **ONE** and any other **TWO** questions.

PLEASE TURN OVER

QUESTION ONE

- i) Explain the effect of lack of the following accounting principles in financial reporting.
- a) Conservatism
 - b) Historical cost (4mks)
- ii) Distinguish between the following terms giving one example of each.
- a) Accounting standards and accounting principles.
 - b) Accounting basis and accounting policies (6mks)
- iii) Discuss the three constraints between the key qualitative characteristics of financial information. (6mks)
- iv) Define depletion of natural resources and explain how it can be estimated (4mks)

QUESTION TWO

- a) The following relates to trade accounts receivable of Kaleche Ltd in the year 2007
- i) Sold shs.900,000 worth of goods on terms 2/10 n/30
 - ii) Received payments for sales of shs.600,000 within discount period and \$100,000 after discount period.
 - iii) It is estimated that at the end of the year 2005, 35% of the outstanding accounts receivable will not be paid within the discount period.

Required:

Journal entries to record the transactions using the net sales method.

(10mks)

- b) On 1st Nov. 2003, a company reported the following transaction in stock that occurred during the month of October.

Date (October)	Units received (Receipts)	Cost £
10 th Oct	400	12.5
20 th Oct	400	1.4
25 th Oct	400	1.5

Sales were as follows

14 th Oct	500	20
21 st Oct	500	20
28 th Oct	100	20

At the beginning of the month of October, there were 300 units values at £ 12 each

Required:

Value the closing stock using the FIFO method and determine the profit for the month of October, ignore all the costs. (15mks)

QUESTION THREE

Kabu Limited bought Xerox Machine on 1st January 2005. The company paid a purchase price of shs.100,000 less early settlement discount of 2%. Freight and insurance costed shs.10,000. The machine is to be used for five years after which its scrap value will be shs.15,000.

On December 31st 2007, a general review of asset values and lives was undertaken and remaining useful economic life was estimated at 7 years. The value as this date was 75,000 residual values was nil.

Required:

- a) Calculate the depreciation charge for the first three years and record these in the ledger accounts. (10mks)
- b) Determine the gain or loss on revaluation on December 31st 2007 (5mks)
- c) Explain how the initial cost of an asset can be measured and how to treat the subsequent expenditures. (10mks)

QUESTION FOUR

- i) Explain the reasons why a company may have high profit but less increase in cash in a year. (6mks)
- ii) Rytetrend plc is a retailer of electrical goods. Extracts from the company's financial statements are set out below:

Profit and loss account for the year ended 31 March:

	2003		2002	
	£000	£000	£000	£000
Turnover		31,800		23,500
Cost of sales		<u>(22,500)</u>		<u>(16,000)</u>
Gross Profit		9,300		7,500
Other operating expenses		<u>(5,440)</u>		<u>(4,600)</u>
Operating profit		3,860		2,900
Interest payable – loan notes	(260)		(500)	
Overdraft	(200)	<u>(460)</u>	nil	<u>(500)</u>
Profit before taxation		3,400		2,400
Taxation		<u>(1,000)</u>		<u>(800)</u>
Profit after taxation		2,400		1,600
Dividends		<u>(600)</u>		<u>(400)</u>
Net profit for the period		1,800		1,200
Profit and loss reserve – brought down		<u>5,880</u>		<u>4,680</u>
Profit and loss reserved – carried forward		<u>7,680</u>		<u>5,880</u>

Balance sheets as at 31 March:

	2003		2002	
	£000	£000	£000	£000
Fixed assets (note (i))		24,500		17,300
Current Assets				
Stock		2,650		3,270
Debtors		1,100		1,900
Bank		<u>nil</u>		<u>400</u>
Current liabilities				
Bank overdraft		1,050		nil
Trade creditors		2,850		1,980
Proposed dividends		450		280
Taxation		720		630
Warranty provision (note (ii))		<u>500</u>		<u>150</u>
		<u>(5,570)</u>		<u>(3,040)</u>
Long term liabilities				
10% loan notes		(nil)		(4,000)
6% loan notes		<u>(2,000)</u>		<u>nil</u>
		<u>20,680</u>		<u>15,880</u>
Share capital and Reserves				
Ordinary capital (£ 1 shares)		1,500		nil
Profit and loss reserve		<u>7,680</u>		<u>5,880</u>
		<u>20,680</u>		<u>15,880</u>

Notes

- i) The details of the fixed assets are:

	Cost £000	Accumulated depreciation £000	Net book value £000
At 31 March 2002	27,500	10,200	17,300
At 31 March 2003	37,250	12,750	24,500

During the year there was a major refurbishment of display equipment. Old equipment that had cost £6 million in September 1998 was replaced with new equipment at a gross cost of £8 million. The equipment manufacturer had allowed Rytetrend plc a trade in allowance of £500,000 on the old display equipment. In addition to this Rytrend plc used its own staff to install the new equipment. The value of staff time spent on the installation has been costed at £300,000, but this has not been included in the cost of the asset. All staff costs have been included in operating expenses. All display equipment held at the end of the financial year is depreciated at 20% on its cost. No equipment is more than five years old.

- ii) Operating expenses contain a charge of £580,000 for the cost of warranties on the goods sold by Rytetrend plc. The company makes a warranty provision when it sells its products and cash payments for warranty claims are deducted from the provision as they are settled.

Required:

- a) Prepare a cash flow statement for Rytetrend plc for the year ended 31 March 2003. (19mks)