



**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: Y1S2**

**DAY: MONDAY**

**TIME: 3.00 – 5.00P.M.**

**DATE: 09/08/2010**

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**INSTRUCTIONS**

1. This paper contains four sections.
2. Answer **ALL** questions
3. Marks allocated are shown at the end of each question
4. Show all relevant workings.

**PLEASE TURNOVER**

### **QUESTION ONE**

- i) Explain the effect of lack of the following accounting principles in financial reporting.
- a. Continuity principle
  - b. Entity principle
  - c. Accounting period concept
- (6marks)**
- ii) Distinguish between the following terms giving one example of each
- a. Accounting standards and accounting principles.
  - b. Accounting basis and accounting policies.
- (6marks)**
- iii) Discuss the three constraints between the key qualitative characteristics of financial information.
- (6marks)**
- iv) Define depletion of natural resources and explain how it can be estimated **(4marks)**
- v) State and explain four types of intangible assets. **(8marks)**

### **QUESTION TWO.**

- a) The following items were found included in the closing balance of trade accounts receivables of Kaleche Ltd in the year 2007 which had a balance of Sh 2500,000
- i) Plant was disposed at a Shs 400,000 on credit.
  - ii) A credit balance of Shs 150,000 in debtors account was treated as debtors.
  - iii) Salary advance to employees amounting to Shs 300,000 was included in trade debtors.
  - iv) Rent receivable of Shs 200,000 was included in trade accounts.
  - v) Interest receivable from investment of Shs 150,000 was included in the trade receivables.

**Required:**

Journal entries to correct the above errors and the adjusted trade receivable account to determine the correct trade receivables (10marks)

- b) On 31<sup>st</sup> October 2003, a company reported the following transaction in stock that occurred during the month of October.

Date (October)	Units received (Receipts)	Cost £
10 <sup>th</sup> Oct	450	120
20 <sup>th</sup> Oct	600	140
25 <sup>th</sup> Oct	300	150

Sales were as follows

14 <sup>th</sup> Oct	460	
21 <sup>st</sup> Oct	500	
28 <sup>th</sup> Oct	350	

At the beginning of the month of October, there were 300 units' values at £ 120 each

**Required:**

Value the closing stock using the LIFO method and determine the profit for the month of October if all sales were at a price of 180. (10 marks)

**QUESTION THREE**

- a. What are the conditions to consider when revaluing fixed assets (3marks)
- b. On January 1<sup>st</sup> 2000 Kabu limited reported a building with original cost of shs 1,200,000 and accumulated depreciation of shs 144,000. On the same date the building was revalued to shs 1,000,000 and the remaining economic life 40 years. On 1<sup>st</sup> January 2004 the building was disposed at shs 700,000 cash. Depreciation is on straight line basis.

**Required**

- i) Buildings account and Provision for depreciation account for the 2000 to 200 (9marks)
- ii) Revaluation reserve account for the year ended 31st December 2000. (4marks)
- iii) Disposal account in 2004. (4marks)

## QUESTION FOUR

The following financial statements relates to Smithson ltd.

### SMITHSON LTD. BALANCE SHEET AS AT JUNE 30, 2000

	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT		
Cash	\$ 9,490	\$ 1,400
Accounts receivable	8,550	9,000
Inventory	6,100	4,320
Prepaid expenses	<u>310</u>	<u>180</u>
	24,450	14,900
CAPITAL		
Land	10,000	8,000
Buildings	30,000	30,000
Accumulated depreciation - buildings	(10,000)	( 9,000)
Equipment	12,000	16,000
Accumulated depreciation - equipment	<u>( 7,100)</u>	<u>( 8,500)</u>
	<u>34,900</u>	<u>36,500</u>
INTANGIBLE		
Goodwill, net of amortization	<u>4,000</u>	<u>4,500</u>
	<u>\$ 63,350</u>	<u>\$ 55,900</u>
LIABILITIES		
CURRENT		
Accounts payable	\$ 6,120	\$ 4,850
Salary payable	290	400
Dividends payable	<u>3,000</u>	<u>1,500</u>
	9,410	6,750
LONG TERM		
Mortgage payable	8,000	10,000
SHAREHOLDERS= EQUITY		
SHARE CAPITAL		
Common shares	29,000	23,500
RETAINED EARNINGS	<u>16,940</u>	<u>15,650</u>
	<u>45,940</u>	<u>39,150</u>
	<u>\$ 63,350</u>	<u>\$ 55,900</u>

**SMITHSON LTD.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED JUNE 30, 2000**

Sales revenue, net	\$ 108,000
Cost of goods sold	<u>46,410</u>
Gross profit	<u>61,590</u>
Operating expenses	
Amortization of goodwill	500
Amortization of capital assets	2,500
Insurance	840
Office and miscellaneous	960
Repairs and maintenance	1,370
Salaries and benefits	21,630
Telephone	1,850
Utilities	<u>750</u>
	<u>30,400</u>
Operating income	31,190
Other items	
Interest expense	800
Loss on sale of equipment	<u>300</u>
Income before income taxes	30,090
Income tax expense	<u>16,800</u>
Net income	13,290
Retained earnings, start of year	<u>15,650</u>
	28,940
Dividends declared	<u>12,000</u>
Retained earnings, end of year	<u>\$ 16,940</u>

**Additional information - items already included in the financial statements:**

- a) A small parcel of land was purchased during the year for \$2,000.
- b) Equipment with a cost of \$4,000 and accumulated amortization of \$2,900 was sold for \$800 cash.
- c) Mortgage principal of \$2,000 was repaid during the year.
- d) Common shares were issued for cash proceeds of \$5,500.
- e) Dividends of \$12,000 were declared; dividends paid were \$10,500.

**Required : cash flow statement using the indirect method.**

**(20 marks)**