

**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: WEDNESDAY**

**TIME: 8.30-10.30 A.M.**

**DATE: 17/12/2008**

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**INSTRUCTIONS:**

- i.** This paper contains four questions.
- ii.** Answer question ONE and any other TWO questions
- iii.** Show all the necessary workings.

**PLEASE TURN OVER**

**QUESTION ONE (20 marks)**

- a) What is the distinction between accounting concept and accounting policies? Use an example of each to illustrate your answer. **(4 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 and make a suggestion of how accountants should deal with the conflicts **(8 marks)**

**QUESTION TWO (25 marks)**

- a) On 1<sup>st</sup> October 2007, Manyatta Ltd. reported the following transactions in stock that occurred during the month of September.

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

Sales were as follows

<b>Date</b>	<b>Unit received</b>	<b>Cost/Units (shs)</b>
14 <sup>th</sup> Oct	550	20
21 <sup>st</sup> Oct	600	20
28 <sup>th</sup> Oct	200	20

At the beginning of the month of October, 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. **(10 marks)**

- b) Two methods of managing debtors are through **assignment** and **factoring**. Differentiate between the two methods and state three conditions to be met when recognizing a sale of debtors as factoring with recourse. **(5 marks)**
- c) The following transactions were extracted from the books of Tamu Ltd. for the month of January and February 2008.
  - i) On January 2<sup>nd</sup>, 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 31<sup>st</sup>, 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 28<sup>th</sup> Tamu Ltd. collected 51,000 and paid balance owed to Faida plus an interest of 1% on the balance due.
  - iv) On February 28<sup>th</sup>, Tamu Ltd. transferred the balance of assigned receivables to the accounts receivable ledge.

**Required:**

Record the above transactions in the related journal of Tamu Ltd. **(10 marks)**

**QUESTION THREE (25 marks)**

The following information has been extracted from the books of Fig Tree Investment Ltd.

Trial balances as at

	1 <sup>st</sup> November 2006	30 <sup>th</sup> November 2007
<b>Credits</b>	<b>Kshs. 000</b>	<b>Kshs. 000</b>
6% debentures due 2015	30,000	20,000
Ordinary shares of Sh. 25 each	20,000	45,000
Share premium	-	15,000
Sales	-	107,006
Creditors	7,520	9,050
Reserves and retained profits	35,963	18,963
Corporation tax due 1 <sup>st</sup> Jan.07	4,200	-
Bad debt provision	9	11
Depreciation provision		
Freehold building	4,023	5,164

Machinery and vehicles	9,671	10,732
Profit on redemption of debentures	-	1,700
Profits on sale of machinery	-	95
Proposed final dividend	1,567	
Provision for maintenance of Properties	325	268
Bank overdraft	85	-
	<u>113,3</u>	<u>232,989</u>

<b>Debits</b>	<b>Ksh. 000</b>	<b>Ksh. 000</b>
Stocks	8,853	10,625
Cost of sales	-	95,042
Debtors	9,577	12,024
Trade loans to customers	3,750	4,950
Fixed Assets at cost		
Freehold land	13,200	16,200
Freehold building	56,075	58,760
Machinery & vehicles	18,422	20,652
Investments at cost	3,486	4,024
Interim dividends	-	1,383
Balance at bank	-	9,329
	<u>113,363</u>	<u>232,989</u>

#### Additional information

During the year:

1. There was a bonus issue of shares of one for one to the ordinary shareholders followed by a rights issue of one share for every eight shares held at a price of sh. 100 per share.
2. The freehold land was revalued from Sh. 13.2 million to sh. 16.2 million, the increase in valuation being transferred to reserves.
3. Machinery costing sh. 2.7 million and with a book value of sh. 0.6 million was sold at a profit of sh. 95,000.
4. Part of the debentures was redeemed at a profit of Sh. 1.7 million.
5. Sh. 100,000 was spent on the maintenance of property.

#### Required:

Prepare a cash flow statement for the year ended 30<sup>th</sup> November 2008, complying with International Accounting Standard No. 7 (Show all workings and any assumptions made must be stated. **(25 marks)**)

#### **QUESTION FOUR**

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

- a) Explain how the initial cost of plant asset should be measured **(4 marks)**
- b) State the three circumstances under which subsequent expenditures on plant assets should be capitalized. **(3 marks)**
- c) What are the conditions to be met when a company decided to capitalize finance charge on plant assets. **(4 marks)**
- d) Mambo Bado Ltd. purchased a plant on 1<sup>st</sup> January 2000 incurring the following costs.

	<b>Shs.</b>
Purchase price of the asset	250,000
Stamp duty	5,000
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. 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 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 expenses for the year ended 2001. **(9 marks)**
- ii) If the building was revalued on 1<sup>st</sup> January 2005 at shs. 200,000. Determine the depreciation charge, the net book value of the asset and the gain on revaluation for the year ended 31<sup>st</sup> December 2005. **(5 marks).**