



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2013 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT ACCOUNTING AND FINANCE

ADVANCED DIPLOMA IN BUSINESS MANAGEMENT

CAD 081: INTERMEDIATE ACCOUNTING

Date: April 2013

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Describe the following terms as used in accounting for cash:
- i) Cash equivalents
 - ii) Restricted cash
 - iii) Bank overdrafts **(9 marks)**
- b) On November, 1, 2010, Travels Company borrowed Shs. 200,000 cash to support its business activities on a one year note with 12% interest payable at the maturity date. Travels Company received cash equal to the face amount of the note, Shs. 200,000. The accounting year ends December 31 and the maturity date of the note is October 31, 2011. Write up the various journal entries and end of year entries required to report this transaction. **(8 marks)**
- c) Murray Company plans to issue Shs. 1,000,000 of 10% debentures dated January 1, 2001. Each bond has a face value of Shs. 10,000. The bonds mature December 31, 2010 and pay interest on June 30 and December 31.

Using the information above define the following terms used in valuation of bonds.

- i) Stated or coupon interest rate
- ii) Bond (authorization) date
- iii) Market or effective interest date. **(6 marks)**

- d) Sprinkles Ltd, a company that manufactures bread and cakes, on June 10, 2012, declared a cash dividend of Shs. 1 a share on 450,000 shares payable July 16, 2012, to all stockholders or shareholders of record, or on the register, June 24, 2012. Write up the various entries required for the declaration and distribution of these dividends. **(7 marks)**

- Q2. a) Distinguish between perpetual and periodic methods of maintaining inventory records. **(8 marks)**

- b) Assume that Cheshire company had the following transactions during the current year:

Beginning inventory	100 units at Shs 70 = Shs. 7,000
Purchases	900 units at Shs. 70 = Shs. 63,000
Sales	600 units at Shs. 140 = Shs. 84,000
Ending inventory	400 units at Shs. 20 = Shs. 28,000

Record these transactions in Cheshire's books using both the perpetual and periodic methods. **(12 marks)**

- Q3. a) Champion Company signed a Shs. 112,000 one year, non – interest bearing note on 10 October 2006 but received only Shs. 100,000 cash. Since Champion Company received only Shs. 100,000 cash, the effective interest rate is 12% (Shs. 12,000 ÷ Shs. 100,000). Write up the various journal entries and end of year entries for the receipt of this non – interest bearing note. **(11 marks)**

- b) Discuss the following terms as used in accounting for short – term liabilities:

- i) Accounts payable
- ii) Accrued liabilities
- iii) Unearned revenues **(9 marks)**

Q4. The following is the trial balance of B.C. Ltd as on 31 December 2012:

	Dr. Shs.	Cr. Shs.
Share capital issued: ordinary shares Shs. 1		75,000
Debtors and creditors	28,560	22,472
Stock 31 December 2011	41,415	
Bank	16,255	
Machinery at cost	45,000	
Motor vehicles at cost	28,000	
Depreciation provisions at 31.12.2011		
Machinery		18,000
Motor vehicles		12,600
Sales		97,500
Purchases	51,380	
Motor expenses	8,144	
Repairs to machinery	2,308	
Sundry expenses	1,076	
Wages and salaries	11,372	
Directors' remuneration	6,200	
Profit and loss account (31.12.2011)		6,138
General reserve.		<u>8,000</u>
	<u>239,710</u>	<u>239,710</u>

Given the following information you are to draw up a trading and profit and loss account for the year ended 31 December 2012, and a balance sheet as at that date:

- i) Authorized share capital: Shs. 100,000 in ordinary shares Shs. 1.
- ii) Stock at 31 December 2012 Shs. 54,300
- iii) Motor expenses owing Shs. 445
- iv) Ordinary dividend proposed of 20 per cent.
- v) Transfer Shs. 2,000 to General reserve.
- vi) Provide for Depreciation of all fixed assets at 20 percent reducing balance method.
- vii) Ignore taxation. **(20 marks)**

END