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**University Examinations 2016/2017**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3225: INTERMEDIATE ACCOUNTING I**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Describe four elements of a financial statement (6 marks)
2. Describe two primary qualitative characteristics of accounting information (6 marks)

**Required**:

1. Explain what is meant by faithful representation and how does it enhance reliability of financial statements (4 marks)
2. The following balances were extracted from the books of Tanzam Ltd. As at 1.1.2012.All the assets except land were acquired three years ago when the business started

Assets Cost shs’000’

Land 50,000

Motor vehicles 4,000

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Buildings 15,000

Equipment 1,000

Furniture 2,000

The company depreciates assets as follows

Motor vehicles 20% on cost

Buildings 2% on cost

Equipment 12.5% on cost

Furniture 10% on cost

Required:

1. Determine the depreciation charges on assets for the year 2012 (3 marks)
2. Fixed assets movement schedule showing the net book value at the beginning and close of 2012 (8 marks)
3. Describe the causes of depreciation and explain why depreciation is treated as an expenses (3 marks)

**QUESTION TWO (20 MARKS)**

The Tarrow oil Drilling Company paid shs. 80,000,000 for the right to explore for a oil deposit on 1000 acres of land in North Eastern Kenya. Costs of exploring for the oil deposit totaled shs.64,000,000 and intangible development costs incurred in digging and erecting the mine shaft were shs.40,000,000. In addition, Tarrow acquired new drilling equipment for the project at a cost of shs. 48,000,000. After the oil is extracted from the well, the equipment will be sold.

Tarrow is required by its contract to restore the land to a condition suitable for recreational use after it Drills the oil. The company has provided the following three cashflow possibilities (good, average and best) for the restoration costs to be paid in three years, after oil drilling is completed

Cash outflow probability

Good 40,000,000 30%

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Average 48,000,000 50%

Best 56,000,000 20%

The company’s risk adjusted interest rate is 8%

**Required**

1. Show the total costs to be capitalized for oil deposits excavation and drilling (10 marks)
2. Distinguish between the following pair of terms (10 marks)
3. Depreciation and amortization
4. Copyright and a patent
5. Current and non-current asset
6. Financial asset and investment property
7. Perpetual inventory management system and periodic inventory management system

**QUESTION THREE (20 MARKS)**

1. A company revalued their land from shs.4,000,000 to shs. 6,000,000. Previously, the same land had been revalued downwards from shs. 5,200,000 to shs4,000,000 creating a revaluation loss of shs1,200,000 which was taken to profit or loss as there was no revaluation surplus as this was the first time the asset had been revalued. The profit for this year from normal day to day activities of the company before revaluation is shs. 6,000,000 and at the start of the year the retained earnings amounted to shs.3,000,000

**Required:**

Show the ledger entry and the extracts from the profit and loss and Balance sheet statements for these transactions (8 marks)

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1. Morgan Ltd. prepares its financial statements according to IAS. At the beginning of its 2014 fiscal year, the company purchased a franchise for shs. 1,000,000. The franchise has a 10-year contractual life and no residual value, so amortization in 2013 is shs. 100,000. The company does not use an accumulated amortization account and credits the franchise account directly when amortization is recorded. At the end of the year, Morgan Ltd choose to revalue the franchise as permitted by *IAS No. 38*. Assuming that the fair value of the franchise, determined by reference to an active market, at year-end is shs.1,200,000,

Show accounting entries/journal entries to record the above transactions in the books of Morgan Ltd. (4 marks)

1. During 2012, its first year of operations, the Ndati Ltd. Sold goods on account for shs.4,000,000. These goods cost shs.2, 400,000. Past experience indicates that 10% of all sales will be returned. Customers returned shs. 260,000 in sales during 2012, prior to making payment.

**Required:**

1. Show the accounting entries to record sales and goods returned, cost of goods sold and inventory of goods during the year, assuming that a perpetual inventory system is used. (4 marks)
2. The entry for anticipated sales returns at the end of 2012 and the final entry in year 2013 assuming the anticipated sales returns are correct (4 marks)

**QUESTION FOUR (20 MARKS)**

1. On July 1, 2013, Mandago Ltd. Issued shs. 1,400,000 of 12% bonds, dated July 1. Interest of shs. 84,000 is payable semiannually on June 30 and December 31, the bonds mature in three years. The market yield for bonds of similar risk and maturity is 14%. The entire bond issue was purchased by Meru United group ltd.

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**Required:**

1. Determine the price paid by Meru United Group for this bond (3 marks)
2. Using the effective interest rate method prepare a bond discount/premium amortization schedule for this bond, showing the interest income amount amortized and carrying value of the bond in each of the interest payment periods for Meru United Group (8 marks)
3. Describe three categories of investment securities where an investor lacks significance influence and indicate how each category is valued (9 marks)

**QUESTION FIVE (20 MARKS)**

The Raju ltd. sells one product, Simplot. Presented below is information for January 2016 for the Raju ltd.

Jan. 1 inventory 100 units at sh.5 each

Jan. 4 sale 80 units at sh. 8 each

Jan. 11 purchase 150. Units at sh.6 each

Jan. 13 sale 120 units at sh.8.50 each

Jan. 20 purchase 150 units at sh.7 each

Jan. 27 sale 100 units at sh.9 each

A physical count on January 31 shows that ending inventory is 100 units. The company uses the periodic method of inventory management.

**Required:**

1. Calculate (15 marks)
2. Cost of ending inventory
3. Gross profit

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Under ( a) LIFO cost flow assumption

(b) FIFO cost flow assumption

(c) Weighted average method

b) Assume a perpetual inventory system is used what would the value of inventory under FIFO cost flow assumption (5 marks)

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