

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

# **UNIVERSITY EXAMINATIONS 2014/2015**

**SECOND YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2201 : INTERMEDIATE ACCOUNTING I**

**DATE: AUGUST 2014 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE**

1. The accounting conceptual framework sets out the concepts that underlie the preparation and presentation of financial statements. Briefly explain the overall scope of the accounting conceptual framework. [8 marks]
2. Zantel Ltd acquired 500 000 ordinary shares of Pakcell Ltd as at 1st July 2010. The ordinary shares of Pakcell Ltd were 800 000 issued and paid at a price shs. 20 per share. As at 31st January the retained profits and share preference of Pakcell Ltd were shs. 400 000 and shs. 150 000 respectively. The profits of Pakcell Ltd as t 31st December 2010 were shs. 180 000 and it assumed to have accrued evenly throughout the year. Zantel Ltd paid a consideration of shs. 13 000 000

Required:

1. Percentage interest acquired by Zantel Ltd in Pakcell Ltd . [2 marks]
2. Fair value of net assets acquired by Zantel Ltd [4 marks]
3. Goodwill on acquisition of PaKcell Ltd [4 marks]
4. Assuming that the goodwill if any is impaired over a period of 5 years. Prepare financial extracts to show how it will appear. [6 marks]
5. Outline the main advantages of leasing [6 marks]

**QUESTION TWO**

1. Bamburi Hanlage Ltd has two alternatives. It could either buy or lease a new truct at a cost of shs 18 000 000. The term of the lease is as follows:
2. The primary period of the lease is for 4 years from 1 January 2005, with a rental repayment of shs. 6 000 000 per annum payable on December 31 each year.
3. The lessee has the right to continue to lease the truck after the end of the primary period for an indefinite period subject to a nominal rent.
4. The lessee is required to pay for repairs, maintenance and insurance cost as they arise
5. The interest rate implicit in the lease is 15% . per annum.
6. The lessee estimated that the economic life of th truck is 6 years and depreciation should be calculated on straight line bases.

Required:

1. Compute the finance charge to be recognized on the leased truck using the actuarial method. [5 marks]
2. Prepare the following ledger entries
3. Leased truck account [3 marks]
4. Provision for depreciation account [3 marks]
5. Lessor’s account [6 marks]
6. Finance charges account [3 marks]

**QUESTION THREE**

1. Distinguish between FIFO and LIFO inventory valuation methods [4 marks]
2. A retailer commenced business on 1 January 2014 with a capital of shs. 400 000. He decided to specialize in a single product line and by the end of June 2013, his purchase and sales of the product were as follows.

Date Purchases sales

Unit unite price unit unit price

Jan 30 500 20 700

Feb - - 5 720

April 40 600 25 800

May 25 650 30 850

June 20 700 20 900

**Total 115 100**

**Additional Information**

1. Operating expense were to be provided as follows

Rent and Rates shs. 4000

Sales commission shs. 2300

Required

Ascertain the retailer’s net profit for the period assuming

1. Stock is valued on LIFO basis [8 marks]
2. Stock is valued on FIFO basis [8 marks]

**QUESTION FOUR**

(The balance sheet of Uwezo Ltd as at 31 December 2013, together with the

comparative figures for the year 2012 are as follows:

Uwezo Ltd

Balance sheet as at 31 December 2013

2013 2012

Assets shs shs

Fixed assets at cost 25 000 23 000

Depreciation (6,200) (5 650)

Stock 14 695 12 000

Debtors 4 150 4 200

Cash at bank 9 255 4 550

**46 900 38 100**

Liabilities

Trade creditors 3 400 18 000

Taxation payable 3 200 2 900

Proposed dividends 600 500

Capital and Revenue

Issued capital 23 000 18 000

Retained capital 9 200 7 500

10% debentures 7 500 6 000

**46 900 39 100**

**Additional information**

1. Fixed assets were purchased at a cost of shs. 5600. In addition fixed assets which cost shs. 3 600 were disposed for shs. 2 500, the book value of these assets was shs. 1 500 and the profit has been included in the retained profit.
2. Prepare a cash flow statement for the company for the year ended 31 December 2013 in accordance with IAST (use the indirect method.) [16 marks]
3. Comment on the position revealed by the cash flow statement prepared in (a) above showing clearly the causes of the difference between profit for the period and change in cash over the same period. [4 marks]

**QUESTION FIVE**

An investing company originally acquired shs. 40 000 9% debentures in Red Ltd

at a capital cost of shs. 36 000. It subsequently increased its holding by another

shs. 80 000 at a capital cost of shs. S76 000. Eventually, the company sold shs. 60

000 of its holding. If the investing company held both investments on 1 July 1998,

and the disposal took place on 1st December 1998 at 91 ex-div and the company

Zed Ltd pays debentures interest on 30th June and 31st December

Required

Show the entries to be made in the books of the investing company for the year

ended 30th June 1999 (Apply the weighted average basis for valuation of shares )

[20 marks]