



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

SECOND YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY

HOMA-BAY CAMPUS

ABA 210: INTERMEDIATE ACCOUNTING II

Date: 11th June, 2017

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



QUESTION ONE

- a) (i) Explain two reasons why a company may issue capital in installments. (4 marks)
- (ii) Give two reasons why Directors may reject application for shareholding in a company by some applicants. (2 marks)

- b) Due to the increasing demand for its products in the regional market, Rafiki Ltd.'s directors have decided to list the company in the Nairobi Securities Exchange. The company has offered you the post of a senior accountant since the former senior accountant was not well-versed with accounting for issue of shares. On assumption of your duty, the first task you encounter is given below.

The company offered 200,000 ordinary shares whose par value was sh. 25 for sale to the public on 1 April 2015, payable as follows:

- On application, Sh.10 (including premium) due on 15 April 2015
- On allotment, Sh.5 due on 30 April 2015
- On first call, Sh.7.50 due three months after allotment
- On second and final call, Sh.7.50 due three months after the first call.

You also realize the following:

1. The company received applications for 6000,000 shares on the due dates. Applications for 100,000 shares were rejected and the application money refunded. The rest of the applicants were allotted shares on a prorata basis.
2. The rest of the calls were received on the due dates.
3. The surplus application monies were treated as calls in advance.

Required:

Using the knowledge you acquired on accounting for issue of shares, prepare ledger accounts to record the above transactions. (9 marks)

QUESTION TWO

The following statement of financial position relate to Owidi Ltd. as at 31 March 2015 with comparative figures for the year ended 31 March 2014.

	2015 Sh. "000"	2014 Sh. "000"
Non-current assets:		
PPE	2000	1625
Intangible assets	1150	900
Investments	-	<u>125</u>
	<u>3150</u>	<u>2650</u>
Current assets:		
Inventory	600	520
Trade receivables	2000	1475
Cash in hand	50	20
90- day deposit	250	-
	<u>2900</u>	<u>2015</u>
Total assets	<u>6050</u>	<u>4665</u>
Non-current liabilities:		
10-year bank loan	500	-
8% debenture	<u>400</u>	<u>300</u>
	<u>900</u>	<u>300</u>
Current liabilities		
Trade payables	610	540
Bank overdraft	940	925
Taxation	600	550
	<u>2150</u>	<u>2015</u>
	<u>3050</u>	<u>2315</u>
Equity:		
Share capital (Sh. 50 ordinary shares)	1000	750
Share premium	800	750
Revaluation reserve	500	450
Retained profits	700	400
	<u>3000</u>	<u>2350</u>
Total equity	<u>3000</u>	<u>2350</u>
Total equity and liabilities	<u>6050</u>	<u>4665</u>

Additional information:

1. ~~Dividends amounting to Sh. 400,000 were paid during the year ended 31 March 2015.~~
2. Tax paid during the year ended 31 March 2015 amounted to Sh. 550,000.
3. The proceeds of sale of the investment were Sh. 150,000.
4. Interest of Sh. 375,000 was paid and interest of Sh. 125,000 was received during the year ended 31 March 2015.
5. The PPE as at 31 March of each year was as follows:

	2015	2014
	Sh. "000"	Sh. "000"
Cost	3700	3075
Accumulated Depreciation	<u>(1700)</u>	<u>(1450)</u>
Net book value	<u>2000</u>	<u>1625</u>

6. During the year, plant with an original cost of Sh. 450,000 and a net book value of Sh. 250,000 was sold for Sh. 185,000.

Required: Statement of Cash flows for the year ended 31 March, 2015, in accordance with the requirements of the IAS 7, "Statement of Cash Flows".

(15 marks)

QUESTION THREE

- a) What are accounting standards and how important are they in the accounting regulatory framework? (6 marks)
- b) With reference to IAS 1, *Presentation of Financial Statements*, critically examine the contents of full published financial statements. (9 marks)

QUESTION FOUR

- a) Explain three advantages of accounting for price-level changes. (6 mks)
- b) In its accounts for the current year, Ofulu Ltd had opening inventory valued at Kshs.12,500 and closing inventory valued at 17,600. Purchases and sales were Kshs.100,000 and Kshs.200,000 respectively. Appropriate stock index numbers were 100 at the beginning of the year and 110 at the end of the year. The average index for the year was 105.

Required:

- i) Compute following current cost accounting principles, the gross profit both on the historical cost and current cost basis; (9 marks)

QUESTION FIVE

- a) Define the following terms:
- (i) Lease (2 marks)
 - (ii) Finance Lease (2 marks)
- b) What are the characteristics of a leveraged lease? (6 marks)
- c) With reference to IAS 17, *Leases*, explain the factors are to be disclosed by the lessor under operating lease in financial statements. (5 marks)