



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

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

MAIN CAMPUS

ABA 210: INTERMEDIATE ACCOUNTING II

Date: 12th June, 2017

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer ONE and any other THREE.
- Show all the workings clearly



QUESTION ONE

Vascom Limited offered 50,000 ordinary shares of Kshs.1 at Kshs.1.25 payable as under:-

Kshs. 0.25 on application

Kshs. 0.50 on allotment (including premium)

Kshs.0.25 on first call

Kshs.0.25 on second call

Applications were received for 60,000 shares. An application for 10,000 shares was rejected. Allotment money due was received. First call was made after one month and second call after two months. All moneys due on first and second call were received except for 1000 shares. These shares were forfeited after three months and then re-issued for Kshs.0.70 each as fully paid.

Required:

- a) Show the necessary journal entries of the Company (13 Marks)
- b) Extract ledger accounts from the entries above and a balance sheet of the Company. (12 Marks)

QUESTION TWO

The following are the summarized Balance Sheet of Pelican Company as on December 2015 and 2016

Liabilities	2015	2016	Assets	2015	2016
Share Capital	200,000	250,000	Land & Building	200,000	190,000
General Reserves	50,000	60,000	Machinery	150,000	169,000
Profit & Loss	30,500	30,600	Stock	100,000	74,000
Bank Loan (long term)	70,000	-	Sundry Debtors	80,000	64,200
Sundry Creditors	150,000	135,200	Cash	500	600
Provision for Taxation	30,000	35,000	Bank	-	8,000
			Goodwill	-	5,000
	530,500	510,800		530,500	510,800

Additional Information:

During the year ended 31st December 2016

1. Dividend of Shs. 23,000 was paid
2. Assets of another company were purchased for a consideration of Shs. 50,000 payable in shares.

The following assets were purchased: Stock Shs. 20,000, Machinery Shs. 25,000

3. Machinery was further purchased for Shs. 8,000
4. Depreciation written off machinery Shs. 12,000
5. Income tax provided during the year Shs. 33,000
6. Loss on sale of machinery Shs. 200 was written off to general reserve

Required:

Prepare a cash flow statement

(15 marks)

QUESTION THREE

Elchico Ltd engages in real estate business owning only one property. The company's main income is rental income.

The balance sheets of the company as at 31st December 2015 and 2016 are as follows:

	2015 KShs	2016 KShs
Assets		
Building (net)	150,000	105,000
Cash	<u>45,000</u>	<u>90,000</u>
	<u>195,000</u>	<u>195,000</u>

The comparative income statements for the years 2012 and 2013 are given below:

	2015 Kshs	Year 2016 Kshs
Revenue	82,500	90,755
Expense		
Depreciation	<u>(45,000)</u>	<u>(45,000)</u>
Net Income	<u>37,500</u>	<u>45,755</u>

Additional Information

- a) The company was formed on January 1st, 2015 through a cash investment of KSh 195,000.
- b) The building was acquired on January 1st 2015 at a cost of 195,000. Expected useful life is 4 1/3 years.

- c) All revenue is received at the end of the year.
 - d) There are no operating expenses except depreciation.
 - e) All net income is paid out as a dividend. The balance of cash is banked at no interest return.
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- f) Replacement cost for a new building of the same type is KShs 180,000 at the end of Year 1 and KShs 210,000 at the end of Year 2.
- g) Net realisable value for the building is KSh 135,000 and KSh 120,000 at the end of Year 1 and Year 2 respectively.

Required:

Prepare the balance sheet and income statements for Elchico Ltd for the two years using:

- (a) The Replacement Cost approach (8 Marks)
- (b) The Net Realisable Value approach (7 Marks)

QUESTION FOUR

Rian Limited (the Lessee) acquired machinery on lease from San Limited (the Lessor) on January 1, 2014. The lease term covers the entire economic life of the machinery, *i.e.*, 3 years. The fair value of the machinery on January 1, 2010 is Ks. 350,000. The lease agreement requires the lessee to pay an amount of Ks. 150,000 per year beginning December 31, 2014. The lessee has guaranteed a residual value of Ks. 11,400 on December 31, 2016 to the lessor. The lessor, however, estimates that the machinery will have a salvage value of only Ks. 10,000 on December 31, 2016. The implicit rate of interest is 15% p.a.

Required:

- a) Compute the value of machinery to be recognized by the lessee and also the finance charges every year on the basis of AS 19. P.V. Factor of 15% in three years. (12 Marks)
- b) Explain the provisions of the following Accounting Standards as a tool of regulating financial reporting
 - i. International Accounting Standards (IAS) 1 (1 Mark)

- ii. International Accounting Standards (IAS) 2 (1 Mark)
 iii. International Accounting Standards (IAS) 7 (1 Mark)

QUESTION FIVE

On 1st June, 2015 Mr. Amayo purchased Kshs. 9,000 5% debentures of Kshs. 100 each in the Kalu Works Ltd. at Kshs. 105 cum- interest, interest being payable on 31st March and 30th September each year. Expenses on Stamps amounted to Kshs. 80. On 1st November, 2015 he sold Kshs. 3,000 debentures at Kshs. 107 cum-interest.

Brokerage is payable on each transaction @¹/8% on nominal value.

Required:

- a) Make entries in Amayo's books and (10 marks)
 b) Show Investment Account and Interest Account as at 31st December, 2015. (5 marks)

QUESTION SIX

The following income statement and balance sheets relate to Bama Ltd. For the years ended 31st March 2016 and 2017:

Income statement for the year ended 31st March 2017

	Sh.'000'	Sh.'000'
Sales		355
Operating expenses		<u>(235)</u>
Operating profit		120
Interest income	3	
Interest expense	<u>(7)</u>	<u>(4)</u>
Profit before tax		116
Taxation		<u>(32)</u>
Profit after tax		84
Less: Dividends		<u>(20)</u>
Retained profit for the year		<u>64</u>

Balance sheets as at 31st March

	2017 Sh. 'million'	2016 Sh. 'million'
Non current assets:		
Tangible	367	196
Intangible	<u>3</u>	<u>4</u>
	<u>370</u>	<u>200</u>

Current assets:		
Stock	140	155
Trade debtors	132	110
Interest receivable	1	2
Cash	<u>4</u>	<u>21</u>
Total current assets	<u>277</u>	<u>288</u>
	<u>647</u>	<u>488</u>

	2017	2016
	Sh. 'million'	Sh. 'million'
Equity and liabilities:		
Ordinary shares of Sh.10 par value	110	90
10% preference shares of Sh.10 par value	20	20
Share premium	44	35
Revaluation reserve	7	-
Retained profits	<u>135</u>	<u>81</u>
	<u>316</u>	<u>226</u>
Non current liabilities		
6% Debentures	20	40
Finance leases	<u>50</u>	<u>42</u>
	<u>70</u>	<u>82</u>
Current liabilities:		
Trade creditors	216	135
Tax payable	29	20
Interest payable	3	2
Finance leases	5	3
Bank overdraft	<u>8</u>	<u>20</u>
	<u>261</u>	<u>180</u>
Total equity and liabilities	<u>647</u>	<u>488</u>

Additional information:

1. During the year ended 31st March 2017, Bama Ltd, issued 1 million Sh.10 ordinary shares at 100% above their par value, incurring issue costs of Sh.1 million. Subsequent to this, a bonus issue of 1 for every 10 shares held was made from the retained earnings.
2. Tangible noncurrent assets include certain assets which were revalued during the year ended 31st March 2017 giving a surplus of Sh.7 million. Assets capitalized under finance lease agreements amounted to Sh.28 million. Disposals of assets having a net book value of Sh.19 million realized Sh.21 million. Depreciation charged for the year ended 31st March 2017 was Sh.37 million.

3. There were no acquisitions or disposals of intangible assets during the year ended 31st March 2017.
4. Debentures worth Sh.20 million were redeemed at par during the year ended 31st March 2017.
5. Interest on finance leases of Sh.3 million is included in the interest expense charged to the income statement for the year ended 31st March 2017.

Required:

Cash flow statement for the year ended 31st March 2017, in conformity with the requirements of IAS-7 – Cash Flow Statements. (15 Marks)