



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2017/2018

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

CITY CAMPUS -DAY & EVENING

ABA 210: INTERMEDIATE ACCOUNTING I

Date: 18th January, 2018

Time: 5.30 - 7.30pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE



Question One (Compulsory)

- a) Briefly, explain the advantages of cash flow analysis (10marks)
- b) The following are the summarized Balance Sheet of a 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 Two

- a) Define Investment. Explain various forms of investment (3marks)
- b) Briefly explain the following:
 - i. Cum dividend purchase (3marks)
 - ii. Ex- dividend purchase (3marks)
 - iii. Fixed interest securities (3marks)
- c) XY Ltd bought 10,000 ordinary shares of Shs. 1 each in Excel Ltd on 1st January 2016 at a cost of Shs. 15,000. On 1st July, Excel Ltd announced a right issue of two ordinary shares for every five held on that date at Shs.

1.25 per share. XY Ltd took up 50% of the entitlement and sold the remaining 50% at Shs. 0.60 per share

XY Ltd received a dividend of 20% on ordinary shares in Excel Ltd on 31st December, 2016

Required:

Record these transactions in the books of XY Ltd for the year ended 31st December, 2016 **(3marks)**

Question Three

i) Briefly, explain the advantages and disadvantages of Accounting Standards. **(12marks)**

ii) “Arguments in support of accounting regulations are usually based on the doctrine of market failure”. Discuss specific reasons why market failure occurs. **(3marks)**

Question Four

i) Explain various methods of issue of shares **(3marks)**

ii) In what ways forfeited shares are issued? Show the entries to be passed at the time of reissue **(8marks)**

iii) Kericho Limited issued a prospectus offering 10,000 equity shares of Shs. 10 each at a par payable as follows: On application and allotment Shs. 2; on first call Shs. 4 and on final call Shs. 4. Toyota, the holder of 500 equity shares did not pay the amount due on both the calls. These 500 shares were forfeited by the Board of Directors and of these 300 shares were subsequently reissued at Shs. 9 per share.

Required:

Pass Journal entries and also prepare opening Balance Sheet. **(4marks)**

Question Five

“If the current cost accounting system does not fully solve the problem of price – level changes”. Briefly, discuss the reasons **(15marks)**

Question Six

Compute the net monetary result of X Company Ltd. as at 31st December, 2015.

The relevant data are given below:

| | 2015 | | 2015 |
|----------------------------|--------|-----|--------|
| Cash | 6,000 | | 15,000 |
| Book Debts | 20,000 | | 25,000 |
| Creditors | 15,000 | | 20,000 |
| Loan | 25,000 | | 25,000 |
| Retail Price Index Numbers | | | |
| January 1, 2015 | | 200 | |
| December 31, 2015 | | 300 | |
| Average for the year | | 240 | |

(15marks)