



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE  
AND TECHNOLOGY (JOOUST)**

**2<sup>ND</sup> YEAR 2<sup>ND</sup> SEMESTER EXAMINATION FOR THE DEGREE  
OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT  
(EVENING-MAIN)**

**COURSE CODE: ABA 210**

**COURSE TITLE: INTERMEDIATE ACCOUNTING II**

**DATE:**

**TIME:**

**DURATION:**

**INSTRUCTIONS**

- 1. This paper contains FIVE(5) questions**
- 2. Answer QUESTION 1 and ANY other TWO questions.**
- 3. Write all answers in the booklet provided.**

### QUESTION 1(COMPULSORY)

- (a) State the three views of accounting for long term investments. (3 marks)
- (b) State any three purposes for which balance in the share premium account may be used. (3 marks)
- (c) (i) Give two reasons why company executives are normally exempted from overtime pay despite that they spend more time in serving the organization. (2 marks)
- (ii) Mr. Otieno, an employee of CHUMA STEEL WORKS Co. normally works for 45 hours per week at an hourly rate of **Kshs 180** per hour. Due to large orders received by the company, he has been asked to work for 60 hours per week, including Sundays.

**Required:**

Calculate the gross pay he expects at the end the month. (3 marks)

- (d) (i) State and briefly explain the two methods recommended by IAS-11 of accounting for long term contract. (4marks)

(ii) BONDO HOUSING DEVELOPMENT Co. has the following information available for the year 2012.

	<b>Kshs'000</b>
Value of work certified	36,000
Cost of work certified	23,000
Progress payments received	25,000
Progress payments receivable	21,400

**Required**

Calculate the profit accounted for in the company's contract accounts for the year 2012.

(5 marks)

- (e) (i) Name two sources and two uses of cash in a company? (4 marks)
- (ii) Briefly explain the meaning of the following terms as used in accounting.

## QUESTION 2

The financial statements of USENGE MILLERS Ltd for the years ended 31<sup>st</sup> December 2011 and 2012 were summarized as shown below:

Profit and Loss account for the year ending 31<sup>st</sup> Dec 2012

	Kshs'000	Kshs'000
Sales		10,000
Cost of goods sold		<u>6,000</u>
		4,000
<i>Expenses</i>		
Depreciation	600	
Interest	150	
Other expenses	<u>2,100</u>	
		<u>2,850</u>
Profit for the year before tax		1,150
Tax		200
Profit for the year after tax		950
Proposed dividend		<u>150</u>
Retained profit		<u>800</u>

Balance sheet as 31<sup>st</sup> December 2012

	2012		2011	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Fixed assets at cost		6,000		6,000
Less accumulated depreciation		<u>(3,000)</u>		<u>(2,400)</u>
Net book value		3,000		3,600
<i>Current assets</i>				
Inventories	650		700	
Trade debtors(receivables)	200		250	
Cash	<u>1,610</u>		<u>150</u>	
		2,460		1,100
<i>Current liabilities</i>				
Trade creditors(payables)	310		300	
Taxation	200		150	
Proposed dividend	<u>150</u>		<u>250</u>	
		<u>660</u>		<u>700</u>
		<u>4,800</u>		<u>4,000</u>
<i>Financed by</i>				
Ordinary share capital		2,000		2,000
Revenue reserves		<u>2,800</u>		<u>2,000</u>
		<u>4,800</u>		<u>4,000</u>

### Required

Cash Flow Statement for USENGE MILLERS Ltd for the year ending 31<sup>st</sup> December 2012 using indirect method. (20 marks)

### QUESTION 3

- (a) State and explain any two problems that may arise when using equity method in accounting for long term investments. (2 marks)
- (b) Name three events which may cause a company to depart from cost method of accounting for long term investment. (6 marks)
- (c) On January 2<sup>nd</sup> 2012, Ruiru Investors Company Ltd acquired **40%** of the ordinary share capital of Usigu Fish Vendors Company Ltd. for **Kshs 3,000,000**, which corresponded with the carrying amount of Investee's net assets. On December 31<sup>st</sup> 2012, Usigu Fish Vendors Co. Ltd reported net income of **Kshs 1,700,000** (including **Kshs 500,000** extra ordinary gains) and declared and paid dividends of **Kshs 1,200,000**.

#### Required

Journal entries in the Ruiru Investors Company accounts for its investments in Usigu Fish Vendors Company and show how the various ledger accounts will appear after the journal entries. (12 marks)

#### QUESTION 4

(a) Name three defects of historical cost system. (3 marks)

(b) At the end of 2012, the following figures were available for stocks on historical cost basis:

	<b>Kshs</b>
Opening stocks	94,800
Purchases	419,600
Closing stocks	63,000

An average of three month's sales is held in stock. The following price indices apply for the stated period.

	Month	Index
Mid-month 2011	October	238.2
	November	239.6
	December	241.0
Mid-month 2012	October	273.2
	November	275.0
	December	276.8
2013	January	279.2
Average for 2012		260.2

#### Required

Calculate the

- (i) Cost of sales adjustment. (7 marks)
- (ii) Revaluation surplus transferred to current cost reserve. (7 marks)
- (iii) Closing stock included in the current cost balance sheet. (3marks)

## QUESTION 5

KAPKATET Co. Ltd has an authorized capital of 5 million ordinary shares of **Kshs 100.00** per share, of which 2,000,000 have been issued at par and fully paid. The directors have resolved to issue a further 1,000,000 shares at **Kshs 140.00** per share payable as follows:

On	Per share Kshs
Application	25
Allotment (including premium)	65
1 <sup>st</sup> Call	30
Final call	<u>20</u>
	<b><u>140</u></b>

Applications were received for 1,300,000 shares, of these 100,000 were rejected and the company repaid to the applicants. The remainder was allotted pro rata on a 5 for every 6 basis and the surplus application money was carried forward to the allotment on account. The calls were made and the appropriate sums received except that a holder of 20,000 shares failed to pay either calls. After the formalities had been carried out, these shares were declared forfeit, but were subsequently reissued to another applicant on payment of Kshs 70 per share.

### Required:

Open, post and balance the relevant accounts (except bank) in Kapkatet Co. Ltd ledgers to record the above transactions. (20 marks)

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**SCHOOL OF BUSINESS AND ECONOMICS**

**YEAR 2 SEMESTER 1 2014**

**ABA 210 INTERMEDIATE ACCOUNTING II**

**COURSE OUTLINE**

**COURSE OBJECTIVES**

By the end of this course the learner should be able to:

- State and explain the theories/views on return on investment;
- Prepare basic ledger accounts for payroll;
- Prepare ledger accounts for authorized share capital; application, allotment and call including forfeiture and calls paid in advance;
- Account for long-term contracts works;
- Accounts for changes in price levels using current cost accounting;
- Prepare cash flow statement;
- Explain the regulatory framework of accounting;

**COURSE CONTENT**

- Accounting for equity; theories; payroll accounting; accounting for share capital, accounting for long-term contract work;
- Accounting for changes in price levels; historical cost accounting, current purchasing power and current cost accounting;
- Cash flow statements; environment and theoretical structure of financial accounting

**COURSE EVALUATION:** ASSIGNMENT - 10%

CAT - 20%

END OF SEMESTER EXAMS - 70%

**COURSE FACILITATOR: GEORGE AYANGA (0716384372/0735455589)**