ABA 21O INTERMIDIATE ACCOUNTING II

Instructions: 1. Answer questions **ONE** and two other questions

3. Time allowed is 2 hours

4. Show all your workings

QUESTION ONE

Faida commercial bank Ltd offered 200,000 ordinary shares for sale to the public at a par value of sh 25 each on 1 April 2004 payable as follows;

- On application, Sh. 5 due on 15th April 2004
- On allotment, sh. 5 due on 30th April 2004
- On first call, Sh. 7.50 due on three months after allotment
- On second and final call, Sh. 7.50 due three months after the first call

Additional information:

1. The company received application for 530, 000 shares on the due dates. Application for 30,000 shares were rejected and the application money refunded. The rest of the application were allotted shares on prorata basis.
2. One month after the allotment, one shareholder of 2000 shares remitted Sh. 25,000 as calls in advance. The rest of the calls were received on the due dates except for money due on second and final call for 8000 shares which was paid three months late
3. The surplus application monies were treated as calls in advance.
4. The company's article of association provided for charging of interest on calls in arrears at 10% per annum.

Required:

Ledger accounts to record the above transactions in the following accounts; bank account, Application, allotment, ordinary share capital, calls in advance, calls in arrears, first call, second and final call, P&L account and interest account. (20 marks)

b) Citing suitable examples, briefly explain the meaning of the following terms;

i) Accounting concepts (2 marks)
ii) Accounting policies (2 marks)
iii) Accounting standards (2 marks)
a) " qualitative characteristics are attributes that make information provided in the financial statements useful to users. Briefly explain two qualitative characteristics of financial statements with reference to the shareholder. (4 marks)

Total (30 marks)

QUESTION TWO

The following is the ledger balance of Himalayan Construction Company engaged on the execution
of ABC Apartments for the year ending 31st March 2003.

Direct Wages	125,000
Bank Balances	66,500
Rates and Taxes	7,500
Direct Expenses incurred	2,500
General overhead allocated	6,000
Fuel and power expenses	62,500
Materials issued to contract	700,000
Furniture	30,000
Plant and Machinery (60% at site)	1,250,000
Land and Building	1,150,000

The ABC Apartments was commenced on 1 st April 2002. Himalayan paid up capital of Ksh. 2,500,000. The contract price was Ksh. 3,000,000. Cash received on account of contract up to 31 st March 2003 was Ksh. 900,000 (being 90% of the work certified). Work completed but not certified was estimated at Ksh. 50,000. As on 31st March 2003 materials at site was estimated at Ksh. 15,000. Machinery at site costing Ksh. 100,000 was returned to stores and wages outstanding were Ksh. 2,500. Plant and machinery at site is to be depreciated at 5%.

Required

Prepare the Contract Account and Balance sheet.

Total (20 marks)

QUESTION THREE

a) The following transactions relate to J.M. Musee, a wholesaler for the year ending 31st December 2005:

July 1 Sold goods to Bwire Agencies worth Ksh. 31,250. On the same day he drew and Bwire Agencies accepted a bill of exchange payable after three months.

July 16 J.M. Musee being in need of money, discounted the bill with his banker for ksh. 31,000 in cash.

Aug 1 Sold further goods to Bwire Agencies worth Ksh. 40,000 drawing on them a bill of exchange for the amount which they accepted on a three months period.

The first bill was duly met on maturity.

The second bill was dishonored on maturity and J.M. incurred charges of ksh 150.

You are required to record the above transactions in J.M. Musee books (Journals, bank account, Bwire agencies Account, Sales account, Bills Receivable Account) (16 marks)

b) Explain four distinct characteristics between Promissory notes and Bills of exchanges

(4 marks)

Total (20 marks)

QUESTION FOUR

a) Briefly explain the role played accounting regulatory bodies in Kenya. (8 marks)

b) All limited companies except those limited by guarantee must have a share capital. The most common types of shares are preference and ordinary shares. The authorized and issued share capital of a company is stated in the memorandum and article of association of the company. Companies issuing shares to the public may issue shares at a premium.

Required

i) Differentiate between authorized and issued share capital. (4 marks)

ii) Briefly explain the rights of preference shareholders over ordinary shareholders

(4 marks)

iii) State two purposes for which company may utilize its share premium. (4 marks)

QUESTION FIVE

The following information relates to Drakensberg:

Balances at 30 June:

	2004	**2003**
	Ksh	**Ksh**
ASSETS		
Land and buildings at cost	388 000	388 000
Furniture and equipment at cost	252 800	228 800
Investments at cost	36 000	50 400
Inventory	62 400	45 600
Accounts Receivable	40 800	43 200
Bank	-	9 600

Prepaid rent	3 600	-

OWNERS' EQUITY, LIABILITIES AND PROVISIONS

Members contributions	540 000	499 200
Accumulated profits	45 600	12 000
Long-term loan	43 200	100 800
Accumulated depreciation: Furniture and equipment	80 400	61 200
Bank	2 400	-
Accounts payable	14 400	48 000
SA Revenue Service	12 000	15 600
Profit distribution payable	37 200	21 600
Accrued interest on long-term loan	8 400	7 200

Additional information:

2.1 The following items appeared, inter alia, in the income statement of Drakensberg for the year ended 30 June 2004:

	Ksh.
Income item: Dividends received	8 640
Expense items: Interest on loan	15 840
Depreciation on fixed assets	21 600
Profit on ordinary activities before taxation	154 560
Taxation	72 000
Profit distribution for the year	48 960

2.2 The proceeds on the sale of the furniture and equipment, sold at carrying amount, was Ksh 25,920. The cost price of this furniture and equipment was Ksh 28,320.

2.3 An investment was sold at cost price.

2.4 Cash received from clients amounted to Ksh527 040 while Ksh395 280 was paid to creditors and for salaries, wages, etc.

Required:
Prepare the cash flow statement of Drakensberg for the year ended 30 June 2004, according to the direct method.

Total **(20 marks)**