



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

EXAMINATION AUGUST-2016

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS
(YR II SEM I)**

UNIT CODE: HCOB 2203

UNIT TITLE: INTERMEDIATE ACCOUNTING I

DATE: 8TH AUGUST, 2016

TIME: 9.00 A.M. – 11.00 A.M.

INSTRUCTIONS:

- Answer question ONE (compulsory) and any other TWO questions
- All workings MUST be shown clearly

QUESTION ONE

- Explain the essential characteristics of Intangible assets and the criteria for initial recognition of an intangible asset as per international accounting standard No. 38. (4 Marks)
- Mbiuki Limited makes its accounts on 30 June every year. On 1st July 2014, the company's Statement of Financial position included the following figures for non-current assets:

| | Cost | Accumulated |
|---------------------|--------|-------------|
| | Sh. | Sh. |
| Land | 40,000 | Nil |
| Buildings | 22,000 | 8,000 |
| Plant and machinery | 16,000 | 6,000 |
| Motor vehicles | 6,000 | 2,000 |

The company's policy is to charge depreciation at the following rates:

| | Rate |
|---------------------|-------------|
| Land | Nil |
| Buildings | 2% on cost |
| Plant and machinery | 15% on cost |
| Motor vehicles | 20% on cost |

A proportionate charge is made in the year of purchase, sale or revaluation of an asset.

During the year ended 30th June 2015, the following transactions took place:

- On 1 January 2015 the company decided to adopt a policy of revaluing its buildings. A professional valuer was engaged for this purpose revalued the buildings at Sh.34 Million.
- On 1 January a plant that had cost Sh.3 million was sold for Sh.500,000. Accumulated depreciation on this plant on 30 June 2015 amounted to Sh.2.3 million. A new plant was then purchased at a cost of Sh.4 million.
- On 1 April 2015 a new motor vehicle was purchased for Sh.300,000. Part of the purchase price was settled by exchanging another motor vehicle at an agreed value of sh.120,000. The balance of Sh.180,000 was paid in cash. The vehicle which was given in part exchange had cost Sh.200,000 and had a net book value of Sh.100,000 as at 30 June 2015

Required:

- The following ledger accounts to record the above transactions:
 - Buildings account & Provision for depreciation Account. (6 Marks)
 - Plant and machinery account & Provision for depreciation Account (6 Marks)

- iii) Motor vehicles account & Provision for depreciation Account.
 b) Property, plant and equipment movement schedule for the year ended 30th June 2015. (6 Marks)

(6 Marks)

(8 Marks)

QUESTION TWO

- a) "To ensure proper cash control, it is necessary to separate the function of handling cash receipts from the function of recording cash receipts" In light of the above statement, explain any FOUR (4) control measures that an organization may implement to ensure adequate cash controls (6 Marks)
- b) ABC Ltd Company, an exploring concern incurred ksh.17, 000,000 in legal cost on January 2014 to successfully defend its patent. The patent has a useful life of 17 years and it's amortized on a straight basis.

Required:

- Journal entries to recognize the patent and amortization in the books of ABC Ltd. (4 Marks)
- c) Discuss the Conceptual framework of accounting in relation to financial reporting. (10 Marks)

QUESTION THREE

The following transactions took place in the books of Mkono Ltd during the financial year 2015;

- Jan 1 Purchased 200 6% debentures of Kes100 each of X Company (interest payable December 31 and June 30) at Kes 98 ex-interest.
 Purchased 500, Kes 1 ordinary shares of Y Company for Kes 2.50 each.
- Feb 1 Purchased 300, Kes1 ordinary shares of Y Company for Kes 2.40 each
- Mar 31 Y Company:
- paid a six month interim dividend of 10%
 - made a bonus issue of 1 for 4.
- Apr 30 Sold 50 of the debentures at 101 cum-interest.
- Jun 30 Received the debenture interest.
- Jul 1 Sold 100 of the ordinary shares at Kes 2.50 each
- Sep 30 Y Company:
- paid a 5% final dividend.
 - Gave the right to shareholders to apply for one new share for every three so held at the price of Kes 2.00 per share payable in full on application.
- Nov 15 Sold one half of the rights at Kes 60 each.
- Nov 20 Exercise the remaining rights.
- Dec 31 Received the debenture interest.

Required:

Prepare the investment accounts in the books of Mkono Ltd. Ignore withholding tax, brokerage fees, stamp duty and other expenses. Show all the Workings should be shown. (20 Marks)

QUESTION FOUR

- a) Discuss two reasons of creating goodwill (4 Marks)
- b) Kizito Ltd sells its products, offering 30 days credit to its customers. Uncollected amounts are estimated by accruing a monthly charge to bad debt expense equal to 2% of credit sales. At the end of the year, the allowance for uncollectible accounts is adjusted based on an aging of account receivables.

The company accounts in 2013 showed the following balances:

| | |
|---------------------------------------|-------------|
| Accounts receivables | Sh. 305,000 |
| Allowances for uncollectible accounts | (Sh 25,500) |

During 2015 sales on credit were sh. 300,000, cash collectibles from customers were Sh 1,250,000 and actual write-offs of accounts were sh. 25,000. An aging of accounts receivables at the end of 2014 indicates a required allowance of sh. 30,000.

Required:

- Determine the balances in accounts receivable and allowance for uncollectible accounts at the end of 2015. (4 Marks)
- Determine bad debt expense for 2015. (2 Marks)
- Prepare journal entries for the accrual of bad debts, the write-offs of receivables and the yearend adjusting entry for bad debts. (10 Marks)

2015 (8 Marks)

QUESTION FIVE

The following information was extracted from the books of Swanga Ltd's procurement officer for the month of February 2016

| | |
|----------------------|--|
| Feb 1 st | Balance brought forward was 400 units @ Ksh70 per unit |
| Feb 2 nd | Issued out 200 units of stock to the production department |
| Feb 3 rd | Received 300 units @ Ksh 80 per units |
| Feb 6 th | Issued out 260 units |
| Feb 10 th | Issued out 120 Units |
| Feb 15 th | Received 180 units @ Ksh 90 per unit |
| Feb 22 nd | Received 110 units @ Ksh 89 per unit |
| Feb 26 th | Issued 270 units |
| Feb 28 th | Received 150 Units @ Ksh 95 per unit |
| Feb 28 th | Issued 100 units |

Required:

- Computer the closing stock using (5 Marks)
 - i) FIFO Method (5 Marks)
 - ii) Weighted Average Method
- a) A machine has a cost of Ksh.106, 000 and a residual value of Ksh.6,000 and a useful life of 4 years. Calculate the annual depreciation charge for the machine using. (2 Marks)
 - i) Straight line method of depreciation. (4 Marks)
 - ii) Declining balance method (4 Marks)
 - iii) Sum of year digit method