



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
2ND YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR

COURSE CODE: ABA 210

COURSE TITLE: Intermediate Accounting 11

EXAM VENUE:

STREAM: (BBA)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer ALL questions in section A and ANY other 2 questions in section B**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**

QUESTION 1(COMPULSORY)

- (a) Give two reasons why a company may make long-term investment in the securities of another company. **(2 marks)**
- (b) (i) State one advantage and one disadvantage of using '**completed contract method**' method to account for a long-term contract. **(2 marks)**
- (ii) During the month of July 2013 Kapchorwa Tea Factory incurred expenses amounting to Kshs 1,610,000 in relation to salaries and wages for its employees. The factory also made the following deductions from the payroll:

	Kshs '000'
PAYE (net reliefs)	210
NHIF	119
Co-operatives deductions	140
Worker's trade Union	126
NSSF	35

The net salaries were duly paid on 2nd August 2013 but deductions were not submitted to the relevant entities until end of August 2013.

Required:

Ledger accounts to show the above transactions. **(9 marks)**

- (c) (i) Give two reasons why company executives are normally exempted from over-time pay despite that they spend more time in serving the organization. **(2 marks)**
- (ii) Mr. Otieno, an employee of CHUMA STEEL WORKS 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 if over-time premium is paid at the rate of one and half times the normal rate. **(3 marks)**

- (d) **Nyando Fish Mongers** acquired 18% of the ordinary share capital of **Winam Export Company (WEC)** on 1 January 2012 for Kshs 4.5 million. During the year, **WEC** declared and paid dividend of Kshs 1.2 million.
- (i) Which method of accounting would be used by **Nyando Fish Mongers** to measure return on capital? Give a reason for the method stated. **(2 marks)**
- (ii) Open relevant ledgers to record the above transactions in the books of **Nyando Fish Mongers**. **(3 marks)**
- (iii) During the year 2013, **WEC** had a permanent decline of Kshs 5.0 million of its net assets.

Required:

Make Journal entries and post relevant ledgers to record the above event in the books of Nyando Fish Mongers. **(3 marks)**

- (e) Name two sources and two uses of cash in a company. **(4 marks)**

QUESTION 2

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 st Call	30
Final call	<u>20</u>
	<u>140</u>

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)**

QUESTION 3

(a) (i) State any two approaches to changing price level accounting. **(2 marks)**

(ii) State and explain two limitations of historical cost accounting. **(4 marks)**

(b) A company had the following monetary items on 1 January 2013:

	Kshs '000'	Kshs '000'
Debtors		410
Bank		5,600
Cash		<u>25</u>
		6,035
Less: Bank Loan	1,560	
Creditors	<u>250</u>	
		<u>(1,810)</u>
Net monetary assets		<u>4,225</u>

The transactions affecting monetary items during the year were made evenly as follows as follows:

- (a) Sales of Kshs 9,870,000.
- (b) Purchases of goods worth Kshs 4,850,000.
- (c) Operating expenses amounted to Kshs 1,750,000.

One machine was sold for Kshs 12,860,000 on 1 July 2013 and another one bought on 30 December 2013 for Kshs 14,470,000. The general price index was as follows:

Date	Index
1 January 2013	300
Average for the year	350
1 July 2013	360
30 December 2013	400

Required:

Compute the general purchasing power, gain/loss for 2013 in terms of the current year-end shilling. **(14 marks)**

QUESTION 4

- (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) Assuming that **Kambajo Construction Company (KCC)** is to construct student's hostel at Jaramogi Oginga Odinga University of Science and Technology at a fixed price of **Kshs 135 million** beginning 2011, with estimated construction costs totaling **Kshs 112.5 million**. The hostel is expected to be completed in the year 2013. The construction costs incurred, cost estimates and other data related to the contract are as follows:

	2011 Kshs'000'	2012 Kshs'000'	2013 Kshs'000'
Construction costs incurred	18,750	74,250	21,750
Estimated costs to complete the hostel	93,750	23,250	-
Work certified	16,500	84,750	33,750
Progress payments received	13,500	78,000	39,750
Other administrative expenses	2,250	4,500	3,375

The **cost-to-cost method** is used in estimating the percentage of work performed.

Required:

A schedule of gross profits for the three years earned by **Kambajo Construction Company (KCC)** using completed contract method. **(12 marks)**

QUESTION 5

The financial statements of KISUMU GRAIN MILLERS Ltd for the years ended 31st December 2012 and 2013 were summarized as shown below:

Profit and Loss account for the year ending 31st Dec 2013

	Kshs'000	Kshs'000
Sales		6,500
Less Cost of goods sold		<u>(3,000)</u>
		3,500
<i>Less expenses</i>		
Wages	2,000	
Other costs	600	
Depreciation	500	
Interest	<u>100</u>	
		<u>3,200</u>
Profit for the year		<u><u>100</u></u>

Balance sheet as 31st December

	2013		2012	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Fixed assets at cost		4,500		3,800
Less accumulated depreciation		<u>(2,300)</u>		<u>(1,800)</u>
Net book value		2,200		2,000
<i>Current assets</i>				
Inventories	400		500	
Trade debtors(receivables)	150		200	
Cash	<u>200</u>		<u>100</u>	
		750		800
<i>Current liabilities</i>				
Trade creditors(payables)	325		300	
Accrued wages	<u>25</u>		<u>50</u>	
		<u>(350)</u>		<u>(350)</u>
		<u>2,600</u>		<u>2,450</u>
<i>Financed by</i>				
Debentures		900		1,000
Ordinary share capital		1,000		1,000
Retained profits		<u>700</u>		<u>450</u>
		<u>2,600</u>		<u>2,450</u>

(continue.....)

Cash account for 2013

Dr.	Kshs '000'	Cr.	Kshs '000'
Opening balance	100	Wages	2,025
Cash from customers	6,550	Other expenses	600
		Cash paid to customers	2,875
		Interest paid	100
		Cash purchase of fixed assets	700
		Cash paid to debenture holders	100
		Dividends paid	50
		Closing balance	<u>200</u>
	<u>6,650</u>		<u>6,650</u>

Required

Prepare Cash Flow Statement for KISUMU GRAIN MILLERS Ltd for the year ending 31st December 2013 using indirect method. **(20 marks)**