



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
2ND YEAR 1ST SEMESTER 2013/2014 ACADEMIC YEAR
BUSIA LC

COURSE CODE: ABA 203

COURSE TITLE: INTERMEDIATE ACCOUNTING

EXAM VENUE:

STREAM : (BBA)

DATE:11/12/14

EXAM SESSION: 9.00 – 11.00 AM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 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 One

- (a) Differentiate between hire purchase and lease. (4 marks)
- (b) Distinguish between minimum rent and short workings as used in royalty accounting. (2 marks)
- (c) Investments in debt securities are grouped into three separate categories for accounting and reporting purposes. Identify and briefly explain these three categories. (9 marks)
- (d) In relation to hire purchase accounting;
- (i) Identify the basic principle involved in accounting for hire purchase transactions. (1 mark)
 - (ii) Describe how that principle is accommodated by two of the accounting methods commonly used to account for hire purchase transactions. (4 marks)
- (e) On January 1, 2008, Chinche Company acquires shs.20,000,000 of Spiderman Products Inc., 9% bonds at of shs.18, 558,900. The interest is payable each December 31, and the bonds mature December 31, 2010. The investment will provide Chinche Company a 12% yield. The bonds are classified as held-to-maturity.

Required:

- (i) Prepare a 3-year schedule of interest revenue and bond discount amortization, applying the straight-line method. (5 marks)
- (ii) Prepare a 3-year schedule of interest revenue and bond discount amortization, applying the effective interest method. (5 marks)

(Total: 30 marks)

Question Two

Kamau has negotiated with Onyango for a licence to manufacture and sell weighing scales patented as “wellscale”. Onyango is the registered owner of the patent. The agreement provides for a royalty to be paid to Onyango of Sh.250 for each unit sold in a year, subject to a minimum of Sh.2,500,000 per year. The shortfall in any year can be recouped from any excess of royalties over the minimum rent in the following year.

Kamau sold 8,000 weighing scales in 2006 and 11,000 in 2007. From the beginning of 2008, Kamau issued a sublicense to Kiplagat for the manufacture and sale of the same units, on the terms of a royalty of Sh.300 each, a minimum sum of Sh.1,500,000 per year and the right to recover any shortfall for a year from an excess in the following year.

The sales volumes for the following two years were:

	Kamau	Kiplagat
2008	12,000	3,000
2009	14,000	4,000

Required:

The accounts in Kamau’s books for each of the four years 2006, 2007, 2008 and 2009 indicating the amounts to be transferred to the income statement each year and the amounts carried forward at the end of each year.

- (a) Royalties payable account (4 marks)
 (b) Onyango Account (4 marks)
 (c) Royalties receivable account (4 marks)
 (d) Short-workings accounts. (4 marks)
 (e) Kiplagat Account. (4 marks)

Assume that all amounts due were received or paid in the appropriate year.

(Total: 20 marks)

Question Three

The following information was extracted from the books of Moses Kiprono, a farmer, for the year ended 31 March 2013:

Trial Balance as at 31 March 2013

	Sh.	Sh.
Purchases:		
Poultry	420,000	
Dairy cattle	1,380,000	
Dairy cattle feed	580,000	
Poultry	150,000	
Fertilizers	220,000	
Seeds	100,000	
Sales:		
Crops		2,740,000
Dairy cattle		2,500,000
Eggs		720,000
Poultry		1,640,000
Milk		1,210,000
Opening stock:		
Mature crops	350,000	
Growing crops	120,000	
Seeds	80,000	
Poultry feed	50,000	
Fertilizers	110,000	
Poultry	230,000	
Dairy cattle feed	180,000	
Dairy cattle	520,000	
Wages:		
Poultry	600,000	
Dairy cattle	960,000	
Crops	720,000	
Repairs of farm machinery	250,000	
Farm house expenses	180,000	
Office expenses	825,000	
Crop expenses	280,000	
Dairy cattle expenses	240,000	
Poultry expenses	450,000	
Farm machinery (Net book value)	2,500,000	

Office furniture (Net book value)	1,500,000	
Drawings in cash	600,000	
Capital account		4,800,000
Debtors	675,000	
Creditors		780,000
Cash in hand and bank balances	350,000	
Accruals		230,000
	<u>16,620,000</u>	<u>16,620,000</u>

Additional information:

1. During the year ended 31 March 2013, the proprietor and the workers consumed items of the following values.

	Proprietor Sh.	Workers Sh.
Poultry	50,000	120,000
Milk	80,000	170,000
Crops	20,000	60,000

2. Farm machinery is depreciated at the rate of 10% per annum on the reducing balance basis while furniture (which initially cost Sh.3,000,000) is depreciated at 10% per annum on cost.

3. On 31 March 2013, the closing stocks were as follows:

	Sh.
Dairy cattle	480,000
Dairy cattle feed	150,000
Mature crops	270,000
Seeds	40,000
Poultry	140,000
Poultry feed	70,000
Fertilizers	80,000
Growing crops	160,000

Required:

- (a) Crop account, poultry account and dairy account for the year ended 31 March 2013. (12 marks)
- (b) General income statement for the year ended 31 March 2013. (2 marks)
- (c) Statement of financial position as at 31 March 2013. (6 marks)

(Total: 20 marks)

Question Four

- (a) Briefly explain the concept “substance over form” with respect to:
- (i) Motor vehicles acquired on hire purchase. (2 marks)
 - (ii) Leasehold land. (2 marks)

(b) Photomap Ltd. is a leading manufacturer of digital video disks (DVDs). As part of its modernization programme, the company decided to replace its old machinery with a state of the art machine imported from Denmark. The following expenses were incurred for the purpose in the year ended 30 September 2005:

	Shs. ‘000’
Catalogue price less cash discount at 10% of the list price	30,000
Freight and insurance	7,000
Customs and excise duty	7,300
Value added tax	7,100
Installation costs	2,000
Pre-production testing	700
Training costs (machine attendant)	50
Insurance (annual)	700
Salary paid to machine attendant (annual)	100

Additional information:

The old machinery disposed of in the year ended 30 September 2005 for Shs. 1,500,000 had cost the company Shs. 2,000,000 on 1 October 2002. An air conditioner equipment purchased for Shs. 545,000 at the same time with the disposed of machinery was scrapped during the year since it was no longer required.

The furniture used by the company was acquired on 1 October 2003 at a cost of Shs. 800,000. The value added tax incurred by the company in respect of the machinery was recovered from the tax authority against output value added tax.

Depreciation per annum is provided at the following rates:

Machinery	-	25% on reducing balance basis
Equipment	-	20% on cost
Furniture	-	15% on cost

Full year’s depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

- (i) Ascertain the cost of the new machinery. (3 marks)
- (ii) Disposal accounts. (3 marks)
- (iii) Provision for depreciation accounts. (3 marks)
- (iv) A property, plant and equipment movement schedule for the year ended 30 September 2005. (7 marks)

(Total: 20 marks)

Question Five

During the month of March 2011, a manufacturing firm advertised in the local press that it had bonded goods which were to be auctioned. On reading the advertisement, Mr Michael Karanja and Mr. Joseph Abuya agreed to pool their resources together and participate in the auction. They agreed to share the joint venture profits and losses. Karanja and Abuya in the ration of 3:2 respectively.

Karanja sent Abuya a cheque of Sh. 2,400,000 on 15 March 2011 to provide him with funds for Karanja's participation in the joint venture.

Karanja and Abuya successfully bought goods and managed to sell all of the goods purchased by the end of April 2011. Their cash transactions appeared as follows:

	Karanja Sh.	Abuya Sh.
Sales	3,840,000	2,520,000
Travelling expenses	392,400	555,600
Advertising	123,600	109,200
City Council charges	102,000	84,000
Salaries and wages	57,600	78,100
Sundry expenses	70,800	34,800
Purchases	1,920,000	1,320,000
Telephone expenses	33,700	28,900
Insurance	12,300	11,200
Transportation of goods	157,000	121,500

Settlement between Karanja and Abuya was done by cheque on 30 April 2011.

Required:

- (a) Memorandum joint venture account. (6 marks)
- (b) Joint Venture account with Abuya in Karanja's ledger (7 marks)
- (c) Joint Venture account with Karanja in Abuya's ledger (7 marks)

(Total: 20 marks)