



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY  
SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR IN BUSINESS  
ADMINISTRATION  
2<sup>ND</sup> YEAR 2<sup>ND</sup> SEMESTER 2018/2019 ACADEMIC YEAR  
NAIROBI CITY LEARNING CENTRE**

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**COURSE CODE: ABA 210**

**COURSE TITLE: INTERMEDIATE ACCOUNTING II**

**EXAM VENUE: 12<sup>TH</sup> FLR ROOM 4**

**DATE: 5/12/2018**

**STREAM: (BBA)**

**EXAM SESSION: 11:30AM – 01:30PM**

**TIME: 2 HOURS**

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**INSTRUCTIONS:**

- 1. Answer Question 1 (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.**

**SECTION A: ANSWER ALL QUESTIONS (COMPULSORY)**

**QUESTION ONE**

- (a) Describe the payroll process. (6 marks)
- (b) Company XYZ issues 100,000 bonds shillings in bonds due in 5 years with 9% interest payable annually at the year end when the market rate for each year is 11%.

**Required**

- (i) The present value to the bonds (6 marks)
- (ii) The discount if any at the time of sale (3 marks)
- (c) Jua Kali Co ltd has authorized share capital of 50,000 Ordinary shares of Shs. 20 each for public subscription as follows: .

Application	shs.5 per share
Allotment	sh.5 per share
First call	sh.5 per share
Second call	sh.5 per share

Applications are received for 70,000 shares and the directors decided to treat them as follows

- (i) To reject 10,000 applicants and refund them their money
- (ii) To allot the remaining shares on the basis of 5 to 6 applied for
- (iii) The excess application money received to be transferred allotment account.

**Required**

Show the relevant accounts in the Company books

- (i) Cash or bank account (5 marks)
- (ii) Application account (3 marks)
- (iii) Share capital account (3 marks)

- (iv) First call and second call accounts (2 marks)
- (v) Balance sheet extract for the same (2 marks)

**SECTION B: ANSWER ANY 2 QUESTIONS**

**QUESTION TWO**

Explain the following terms:

- (i) Long term contracts (2mark)
- (ii) Fixed price and cost escalation contracts (2marks)
- (iii) Cost plus contract (2marks)
- (iv) Fixed price contracts (2mark)

(b) The following are the data related to ABC contractors Ltd.

Materials delivered from store to site	80,000
Materials delivered to site by suppliers	120,500
Materials returned to stores	5,000
Materials returned to suppliers	8,500
Materials sold at the site	10,000
The cost of this material sold is	7,500
Materials on hand at the site on 31 <sup>st</sup> Dec 2016	4,000
Wages paid	90,000
Wages accrued	3,000
Miscellaneous expenses spent on site	22,000

The work was commenced on 1<sup>st</sup> July. The machine was purchased for shs 300,000 and used for all the six months; the depreciation of the machine is 20% per pa.

The supervisor is paid shs 9,000 per month and he spends 2/3 of his time to supervise this contract and for the remaining time he supervises the contract of another company.

The contract price for this work is shs 900,000 cost of work certified=460,000

Cost of work not certified=40,000

Retention 10% for 3 months

Required:

- (i) Prepare the contractors A/C or show the cost of materials used (10 marks)
- (ii) The contra tee's account (2marks)
- (iii) The real profit account (3marks)

### QUESTION THREE

- (a) Explain the objective and scope of IAS 7( cash flow statement) (5 marks)
- (b) The following balance sheets were extracted from the books of Jasho Ltd as at 30<sup>th</sup> June 2016 and 2017

	2016	
2017	Shs 000	shs 000
Non-current assets:		
Cost	85,000	119,000
Accumulated depreciation		<u>(26,000)</u>
	<u>(37,000)</u>	
	59,000	82,000
Current assets		
Inventories	34,000	
40,000		
Trade receivables	26,000	
24,000		
Cash at bank	<u>10,000</u>	
<u>13,500</u>		
	<u>70,000</u>	<u>77,500</u>
Total assets	<u>129,000</u>	<u>159,500</u>
Equity and liabilities:		
Capital and reserves:		

Ordinary share capital (Shs.100 par value) 26,000	26,000	
Share premium	12,000	15,000
Retained profit <u>53,500</u>	<u>31,000</u>	
	69,000	94,500
Non-current liabilities		
10% debentures 10,000	20,000	
Current liabilities:		
Trade payables 23,000	15,000	
Taxation 15,000	12,000	
Dividends <u>17,000</u>	<u>13,000</u>	
Total liabilities <u>129,000</u>	<u>129,000</u>	

#### Additional information

1. There were no disposals of non-current assets during the year ended 30<sup>th</sup> June 2017
2. Shs.10million of the 10% debentures were redeemed on 31<sup>st</sup> December, 2016
3. During the year ended 30<sup>th</sup> June 2016,a dividend of shs 17,000,000 was proposed
4. Taxation for the year ended 30<sup>th</sup> June was agreed at shs.15, 000,000

Required:

Cash flow statement for the year ended 30<sup>th</sup> June 2017 in accordance with the requirements of IAS7 (Cash flow statements)

#### **QUESTION FOUR**

(a) In the context of current cost accounting ,briefly explain

(i) Monetary items

(2 marks)

(ii) Identify any two limitations of historical cost accounting (2 marks)

(b) ABC Ltd presents the following historical cost and current purchasing power (CPP) Balance sheets as at 1<sup>st</sup> January 2016 when the Retail Price Index (RPI was 150)

Purchasing Power	Historical cost		conversion	Current	
	Sh.000	sh.000		Sh. 000	000
Fixed assets	8000		150/100		12,000
Current assets					
Stocks	1200		150/140		1,286
Debtors and cash	600	<u>1800</u>		600	1,886
		9,800			
Share capital:					
Ordinary shares @10	4,000		150/80		7,500
10% preference shares	2,000	6,000		2,000	9,500
Reserves		<u>2,400</u>			<u>2,986</u>
Owners' equity		8,400			12,486
15% Debentures		1,000			1,000
Current liabilities		<u>400</u>			<u>400</u>
		9,800			13,886

During 2016, ABC Ltd issued 200,000 ordinary shares of sh.10 each at a 25% premium on each share on 1<sup>st</sup> April 2016 when the RPI was 160 and purchased fixed assets of sh.3 million on 1<sup>st</sup> September 2016 when the RPI was 175.

ABC Ltd's historical cost profit and loss account for 2016 was as follows

Profit and loss account for the year ended December 2016

	Sh.000	sh.000
Sales		12,000
Less		
Opening	1,200	
Purchases	<u>7,000</u>	
	8,200	
Closing stock	1,600	6,600
Gross profit		5,400
Sundry expenses	1,450	
Debenture interest	150	
Depreciation 20% reducing bal	<u>2,200</u>	<u>3,800</u>
Net profit		<u>1,600</u>

1. It was assumed that ,sales ,purchases, expenses and debenture interest all accrued evenly over the year and that the average RPI for the year was 170
2. It is further assumed that the average age of the closing stock was two months and that the RPI on 31<sup>st</sup> October 2016 was 178
3. The RPI at the year-end was 180
4. The fixed assets and stocks were acquired when the RPIs were 100 and 140 respectively
5. No dividends were declared in 2016
6. A full years depreciation has been provided on the fixed assets purchased on 1<sup>st</sup> Septembers 2016

Required:

- (a) Calculate the gains or losses resulting from the company's monetary position.

(6 marks)

- (b) Prepare the profit and loss account for the year ended 31<sup>st</sup> December 2016

(10 marks)

### QUESTION FIVE

- a) The objective of financial statement is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Explain **five qualitative characteristics** of financial statements

(20 marks)