



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE
AND TECHNOLOGY (JOOUST)**

**2ND YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE
OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT
(EVENING-MAIN)**

COURSE CODE: ABA 203

COURSE TITLE: INTERMEDIATE ACCOUNTING I

DATE:

TIME:

DURATION: 2 HOURS

INSTRUCTIONS

- 1. This paper contains FIVE(5) questions**
- 2. Answer QUESTION 1 and ANY other TWO questions.**
- 3. Write all answers in the booklet provided.**

QUESTION ONE

- a) What is an asset? (2 marks)
- b) State three basic factors that must be taken into account when calculating the depreciation charge on an asset. (2 marks)
- c) Distinguish between “allowance for bad and doubtful debts” and “bad debts” (2 marks)
- d) Gravel extractors Ltd. acquired the rights to remove deposits from land owned by a farmer. The agreement provided for:
- i) The payment of royalty of **Kshs 100** per ton of gravel removed.
 - ii) A minimum payment of **Kshs 500,000** per annum
 - iii) Recoupment rights (for short workings) to be extinguished at the end of year 3.

During the first four years of the contract the following quantities of gravel were removed:

| Year | Tons |
|------|-------|
| 1 | 3,000 |
| 2 | 5,000 |
| 3 | 6,000 |
| 4 | 7,000 |
| 5 | 6,000 |

The company’s accounting period ends on 31st December and payment to the farmer is made on 1st February the following year.

Required:

A schedule showing royalty payable, short workings, amount payable, short working recouped and those written off. (10 marks)

- e) (i) What is the difference between joint venture and partnership? (2 marks)

(ii) Alice and Benter were partners in a joint venture sharing profits and losses in the ratio **3:2** respectively. Alice supplied goods to the value **Kshs 50,000** and incurred expenses amounting to **Kshs 4,000**. Benter supplied goods to the value of **Kshs 40,000** and her expenses amounted to **Kshs 3,000**. Benter sold goods on behalf of the joint venture and realized **Kshs 120,000**.

Required:

Joint venture accounts as they would appear in the books of Alice and Benter together with the memorandum joint venture account. (12 marks)

QUESTION TWO

- a) State three reasons why a company provides for depreciation of its non-current assets.
(3 marks)

- b) The non-current assets of Jambo Ltd as at 1 May 2013 were as follows:

| Non-current asset | Cost Kshs "000" | Accumulated depreciation Kshs "000" |
|--------------------------|----------------------------|--|
| Land | 440,000 | - |
| Plant and equipment | 700,320 | 270,560 |
| Motor vehicles | 517,600 | 168,800 |
| Fixtures and fittings | 100,000 | 25,600 |

Additional information:

- The company uses the straight line method of depreciation at the following rates:

| | |
|-----------------------|-----------------|
| Plant and equipment | 10% per annum |
| Motor vehicles | 20% per annum |
| Fixtures and fittings | 12.5% per annum |
- It's the policy of the company to provide for a full year's depreciation in the year of purchase of an asset and none in the year of disposal.
- Land was revalued at **Kshs 780,000,000** during the year.
- A motor vehicle bought on 1 January 2011 for **Kshs 686,400** was traded in on 1 July 2013 at a value of **Kshs 352,000** in part exchange for a new vehicle costing **Kshs 1,120,000**.
- On 1 October there was an accident in the factory plant and the plant equipment was written off. The insurance company agreed to pay **85%** of the cost of plant and equipment. As at 31st December they had not done so.
- Fixtures and fittings include an item which is fully depreciated and no longer in use. Its cost was **Kshs 200,000**.
- On 1 November 2013, the company purchased plant and equipment at a cost of **Kshs 12 million**.

Required:

- Provision for depreciation on plant and equipment, motor vehicles and furniture and fixtures. (Separate accounts required). (10 marks)
- Non-current asset movement schedule for the year ended 31st Dec.2013. (7 marks)

QUESTION THREE

- a) State two advantages of using FIFO as a method of inventory valuation. (4 marks)
- b) The following information relates to the purchases and sales of product C192 during the month of March 2013

| DATE 2013 | | RECEIPT | | DATE 2013 | | ISSUE | |
|--------------|----|----------|----------------|--------------|----|----------|----------------|
| | | Quantity | Amount Kshs | | | Quantity | Amount Kshs |
| Mar | 1 | 400 | 30,000 | Mar | 3 | 300 | 31,500 |
| Mar | 5 | 600 | 48,000 | Mar | 10 | 500 | 55,000 |
| Mar | 15 | 500 | 45,000 | Mar | 17 | 400 | 46,800 |
| Mar | 25 | 400 | 34,000 | Mar | 26 | 500 | 60,000 |
| Mar | 30 | 300 | 28,500 | Mar | 31 | 200 | 23,000 |

General expenses for the month amounted to Kshs 60,300.

Required:

- i) Prepare the stores ledger account using the First-In-First-Out (FIFO) method. (12 marks)
- ii) Determine the net profit for the month of March 2013. (4 marks)

QUESTION FOUR

- a) Give three reasons why a company would invest in the stocks or share of another company. (3 marks)
- b) The following transactions took place in the books of Chui Ltd.

| | | |
|-----|----|---|
| Jan | 1 | Purchased 200 6% debentures of Kshs100 each of Punda Milia Company (interest payable 31 December and 30 June) at Kshs 98 ex-interest Purchased 500 Kshs20 ordinary shares of Swala Company for Kshs 50 each |
| Feb | 1 | Purchased 300 Kshs20 ordinary shares of Swala Company for Kshs 48 each |
| Mar | 31 | Swala Company paid a six month interim dividend of 10% |
| Apr | 30 | Sold 50 of the debentures at Kshs 101 ci |
| Jun | 30 | Received debenture interest |
| Jul | 1 | Sold 100 of the ordinary shares at Kshs 50 |
| Sep | 30 | Swala Company paid a 5% final dividend |
| Dec | 31 | Received debenture interest. |

Required:

The investment accounts in the books of Chui Ltd. It is not the company policy to apportion dividends. (17 marks)

QUESTION FIVE

Nyaugenya Transport Co. Ltd acquired two new buses on 1 January 2011 for **Kshs 12,915,000** on hire purchase. The cash price being **Kshs 9,000,000** for the two buses. The deal was financed by Wananchi Commercial Bank (WCB) and the terms of hire purchase contract required a deposit of **Kshs 3,000,000** on delivery, followed by three installments on 31st December 2011, 2012 and 2013 of **Kshs 3,300,000, Kshs 3,300,000** and **Kshs 3,315,000** respectively. The true rate of interest was **30%** per annum.

Required:

Prepare the appropriate accounts in the books of Nyaugenya Transport Ltd Co. to record the above transactions. (20 marks)

END

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SCHOOL OF BUSINESS AND ECONOMICS

YEAR 2 SEMESTER 1 JAN-APR 2014

ABA 203 INTERMEDIATE ACCOUNTING 1

COURSE OUTLINE

COURSE OBJECTIVES

By the end of this course the learner should be able to:

- Identify the accounting principles behind accounting for irrecoverable debts and allowances; inventories non-current assets, depreciation and investments.
- Identify the journals for writing off irrecoverable debts; inventory valuation; and depreciation;
- Identify the effects of irrecoverable debts on gross and net profit in the income statement;
- Identify the accounting principles behind accounting for farming business, hire purchase joint ventures and royalties;

COURSE CONTENT

- **Accounting for assets**; theories; valuation at cost; treatment of expenditure over life of assets and disposal, allocation of cost to useful life.
- **Accounting for investments**;
- **Specialized accounts**; Farm accounts, hire purchase accounts, joint ventures and royalty accounts.

| | |
|--------------------------------------|-------|
| COURSE EVALUATION: ASSIGNMENT | - 10% |
| CAT | - 20% |
| END OF SEMESTER EXAMS | - 70% |

COURSE FACILITATOR: GEORGE AYANGA (0716384372/0735455589)