

JARAMOGI OGINGA ODINGA UNIVERSITY
ABA 210
SEMESTER EXAMINATION MAY- AUGUST 2014
INTERMEDIATE ACCOUNTING II

Answer 3 questions out of the following 5 questions, question ONE is compulsory and choose any TWO out of the other 4 questions. Show all your workings. Any assumptions made must be clearly and concisely stated.

Question One

(a)The following was the balance sheet of XYZ ltd as at 31st December 2013

Balance Sheet

Fixed assets	2,400,000	80,000 Ordinary shares @20	1,600,000
Debtors	376,000	40,000 preference shares @20	800,000
Bank	504,000	P& I account	600,000
		Creditors	<u>280,000</u>
	<u>3,280,000</u>		<u>3,280,000</u>

It was resolved at general meeting to redeem the preference shares at a premium of 10% under the following terms

- To issue 20,000 ordinary shares of sh 20 each at a premium of 5%. This amount was paid in full.
- The premium on redemption was financed from the share premium and the balance from profits
- Fixed assets with book value 400,000 were sold for sh 480,000

Required

- Journal entries to record the above transactions (6marks)
 - The relevant ledger accounts (7marks)
 - Balance sheet after transactions (5marks)
- (b) In liability accounting, differentiate the use of the following terms and show the accounting treatment in each case with relevant journal entries.
- Accounts payable
 - Notes payable (6marks)
- (c) Briefly discuss the challenges faced in payroll accounting, citing out their solutions (6marks)

Question Two

(a)The International Accounting standards Board (IASB) is continuously working with other accounting standards setting bodies in the world including ACCA and ICPAK to have an International Financial Reporting Standards which are accepted globally. An important point of focus is a conceptual framework.

Required:

Explain the importance of a conceptual framework and the key issues that such a framework should address. (15marks)

(b) On March 1, 2012, Equity Corporation issued \$ 2million of 12%, 20 -year bonds payable. These bonds are dated March 1, 2012 and interest is computed from this date. Interest on the bonds is payable semi-annually, each September 1st and March. All the bonds were sold at par value (face value).

Required:

Journalise the above transactions

(5marks)

Question Three

(a) The following were opening balances of XYZ ltd as at 1st January 2013

	Sh '000'
Land	6,000
Equipment	4,000
Inventory	<u>2,000</u>
Equity	<u>12,000</u>

During the year ended 31st December 2013, the company completed the following transactions:

Purchased inventory at sh 10,000,000

Sold inventory for sh 11,000,000 in cash. This inventory had a historical cost value of sh 9,000,000

Additional information

1. Closing inventory on 31st December 2013 had a historical cost of sh 3,000 and was bought when the real price index (RPI) was 115(average).
2. The equipment has an expected useful life of four years and a nil residual value. The straight line method of depreciation is use.
3. The general price index during the year was as follows:

1 st January 2013	100
30 th June 2013	110
31 st December 2013	120
4. Assume that purchases and receipts occurred evenly throughout the year.
There was no debtors and creditors.

Required:

- (i) The current purchasing power (CPP) profit (or loss) for the year ended 2013

(7marks)

- (ii) CPP balance sheet as at 31st December 2013

(7marks)

(b) Kenya government has strategized to finance its 2014-15 budget deficit by issuance of bonds. Give out the various bond options avail at their disposal in financing such deficit and recommend the best.

(6marks)

Question Four

(a) In operation of pension schemes various benefits are enjoyed by the employee. Briefly explain the various benefits that can accrue to an employee on employment.

(10marks)

(b) A lessor leases out an asset on terms which constitute a finance lease. Deposit due from lessee on 1st July 2014 sh 3,000,000. The primary period is four years commencing 1st July 2014 and the rental payable is sh 3,000,000 per annum (in arrears). The lessee has the right to continue the lease after the five year period referred to for an indefinite period at a nominal rent. The cash price of the asset in question as at 1st July 2014 can be assumed to be sh 11,372,000. The rate of interest implicit in the lease is 10%.

Required:

Show the accounting entries in the lessor's books (apply the requirement of IAS 17-leases)

(10marks)

Question Five

After awarding the contract to Shreeji co. Ltd, the following trial balance was noticed on 31st December 2013 in their books

	\$	\$
Share capital : 35,180 shares of sh 10 each		351,800
Profit and loss account on 1 st January 2013		25,000
Provision for depreciation of machinery		63,000
Cash received on account : Contract 47p		1,280,000
Creditors		81,200
Land and building (cost)	74,000	
Machinery (cost)	52,000	
Bank	45,000	
Contract 47P		
Materials	600,000	
Direct labour	830,000	
Expenses	40,000	
Machinery at site (cost)	<u>160,000</u>	
	<u>1,801,000</u>	<u>1,801,000</u>

Contract 47P was started on 1st January 2013. The contract price is \$ 24,000,000 and the customer has so far paid \$ 1,280,000, being 80% of the work certified.

The cost of the work done since certification is estimated at \$ 16,000. On 31st December 2013, after the above trial balance was extracted, machinery costing \$ 32,000 was returned to stores, and materials when at site were valued at \$27,000

Provision made for direct labour due \$ 6,000 and for depreciation of all machinery 10% on cost. Required:

- Statement of contract account (5marks)
- Statement of profit if any to be credited to profit and loss account for 2013 (2marks)
- Statement of financial position of Shreeji co Ltd as on 31st December. (7marks)
- Current cost Accounting is faced with several drawbacks, identify the various hindrances likely to be faced by implementation of this method of accounting (6marks)

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY SCHOOL BUSINESS AND ECONOMICS (SBE)

DEPARTMENT OF ACCOUNTING AND FINANCE

COURSE OUTLINE

UNIT CODE: ABA 210: Intermediate Accounting II

CREDIT HOURS: 42

ACADEMIC YEAR 2013/2014

COURSE INSTRUCTOR : Stanley Abonyo Cell Phone: 0720-399952 Email: sabonyo@gmail.com

Purpose

To develop the students' ability in preparation of financial statements and to impart relevant knowledge and skills applicable in corporate institutions.

Course Descriptions:

Accounting for equity ; theories ; payroll accounting : accounting for share capital, accounting for long-term liabilities capital, long term contract work accounts
Accounting for changes in price levels; historical cost accounting, current purchasing power and current cost accounting; cash flows statements; environment and theoretical structure of financial accounting.

Learning Outcomes

At the end of this course the student should be able to :

- Use the knowledge and skills acquired to prepare financial statements of a company
- Have prudent measures in management of long term liabilities
- Apply accounting principles and concepts relating to liabilities and equity.

Class Schedule	Contents/Topics	Reference Texts
Week 1	Environment and theoretical structure of financial Accounting GAAP, IAS , IFRs	Edmonds MCrain Mitom, Fundamental Accounting Concepts
Week 2 and 3	Accounting for equity Issues and redemption of shares Capitalization ,rights and bonus issues, preference and common shares	Meigs, w.B and John – Fundamental Financial Accounting
Week 4	Accounting for long term liabilities Accounting for Note payable Issuance and interest	Fred Skousen, Earl H- James D Stice , Meigs W -Financial Accounting
	Payroll Accounting	Meigs,William,Haka

	Deduction in computations of Net-pay NSSF, NHIF	Bettner–Financial Accounting
Week 5	Accounting for pensions and employee benefits	Antony R.N. Reece J.S & Hertenstein J.H “Accounting ;Text Cases’ Richard D. Irwin inc.
Week 6	CONTINUOUS ASSESSMENT TEST (CAT ONE)	
Week 7	Accounting for leases –Lessee and Lessor	Smith, J.M and Skou K.F Welsh –Financial Accounting
Week 8	Accounting for Bonds Issuance of Bonds , Interest , Amortization of debts	Donald E. Kieso, Jerry Weygandt, Terry D
Week 9	CONTINUOUS ASSESSMENT TEST (CAT TWO)	
Week10 and 11	Long term contract work accounts Contract profit , work certified and uncertified , contract accounts	Advance Accounts M.C.Shukla , Grewal and S.C. Gupta
Week 12	Accounting for changes in price levels Current purchasing power Accounting and Historical cost Accounting Conversion factors Monetary items & non monetary items	Financial Accounting ;Jain Khandelwal ,Pareek
Week 13	Current cost Accounting Conversion factors	Financial Accounting ;Jain Khandelwal ,Pareek
Week 14	End of Semester examinations	

Instructional Methodologies: Class Discussions,Class Lectures ,Group presentations and Assignments

Course Assessments : Learners registered for the units are required to complete all CATs which comprise of 30% (15% CAT 1 and 15% CAT2) and University examination 70%

Policy issues:

1. All students must attend classes and actively participate
2. Students must be punctual to be in class 15minutes before lectures begins
3. Class representative should consult with the Course instructor immediately in case of any inconvenience caused by lateness.

Course Instructor Signature.....

Date

Approved by HOD:

Signature.....**Date**.....