JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS ADMINISTRATION WITH IT

2ND YEAR 2ND SEMESTER 2022/2023 ACADEMIC YEAR

MAIN CAMPUS REGULAR

COURSE CODE: BAB 1208

COURSE TITLE: INTERMEDIATE ACCOUNTING II

EXAM VENUE:

DATE:

DURATION: 2 HOURS.

INSTRUCTIONS

a) Answer QUESTION ONE and any other TWO questions

b) Show ALL your workings and be as NEAT as possible

c) Candidates are advised not to write on the question paper

d) Marks allocated to each question are shown at the end of the question.

QUESTION ONE

a) Explain the following terms as they relate with issue of shares
   i) Share premium (2 marks)
   ii) Rights issue (2 marks)

b) The Institute of Certified Public Accountants of Kenya **(ICPAK)** was established by the Accountants Act (Cap 531) of the Laws of Kenya in 1997. State **Four functions** of the Institute. (4 marks)

c) The following information relates to employee data for the month of November 2022.

Clock No.	Name	No. Of hours worked	Rate of pay	Advance paid
5012	A. Robert	140	shs 10 per hour	500
5016	S. Mwangi	200	shs 14 per hour	700
5011	J. Alex	190	shs 12 per hour	600
5015	R. Josphet	210	shs 10 per hour	800
5013	P. Wachira	200	shs 16 per hour	800
5014	G. Paul	170	shs 13 per hour	500

Additional information

i) Normal working hours per month are 140. Overtime payable for extra hours at the rate of 50% above normal pay rate.
ii) PAYE to be deducted at the rate of 10% of gross wage.
iii) NSSF to be deducted shs 120 for each employee.
iv) NHIF to be deducted shs 40 for each employee.

Required: Prepare a payroll for the month of November 2022 (10 marks)

d) Distinguish between reserves and provisions (2 marks)

e) In relation to accounting for Construction Contracts, write short notes on the following;
   i) Fixed price contracts subject to escalation clauses (2 marks)
   ii) Cost plus contracts (2 marks)

f) Briefly explain the application of the accruals and prudence concepts in accounting for Long – Term construction contracts (2 marks)

g) State and explain two reasons why the amount of cashflows of a business firm during a given period may differ from the profits generated by the business during the same period (4 marks).

QUESTION TWO

a) The concept of capital maintenance is primarily concerned with how an enterprise defines the capital that it seeks to maintain. Explain clearly the concept of financial capital maintenance and physical capital maintenance. (4 marks)

b) Shikamana Ltd. Offered 30,000 ordinary shares of shs 10 each at par, payable by instalment as under:

Shs. 2 payable on application.

Shs 5 payable on allotment.

Shs 3 on first and final call.

Applications were received for 33,000 shares. The company however allotted only 30,000 shares, rejecting applicants for 3,000 shares. The rejected applicants were refunded their application money in full.

All money due were received except for 1,000 shares that had fallen in arrears on the first and final call**. Required:**

Make journal entries and ledger accounts for the above transactions. (10 marks)

c) Explain the approaches to development of an accounting theory (6 marks)

QUESTION THREE

Mahindi Ltd, a public company presents the following statement of financial position for the years ended 30 June.

	2022	**2021**
Non current assets	**sh"000"**	**sh "000"**
land	90,000	40,000
building	200,000	200,000
Accumulated depreciation - building	(36,000)	(30,000)
Equipment	290,000	142,000
Accumulated depreciation - equipment	(43,000)	(40,000)
Investments (long term)		45,000

	501,000	357,000
Current assets		
inventory	172,000	180,000
accounts receivable	74,000	65,000
prepaid expenses	4,000	3,000
cash and bank	49,000	26,000
	299,000	274,000
Current liabilities		
accounts payable	50,000	32,000
corporation tax	2,500	4,000
dividends proposed	15,000	8,000
	67,500	44,000
	231,500	230,000
Net current assets	732,500	587,000
Financed by		
ordinary share capital	280,000	230,000
Preference share capital	150,000	
Excess of issue price over par - preferred stock	10,000	
retained earnings	172,500	112,000
bonds payable	120,000	245,000
	732,500	587,000

Additional Information

i. During the year ended 30 June 2022, the company made a net profit of sh. 90,500,000 on its ordinary operating activities.

ii. Depreciation for the year ended 30 June 2022 has been calculated as equipment at sh. 12,000,000 and buildings sh. 6,000,000.

iii. During the current year, some items of equipment worth sh. 9,000,000 have been fully depreciated. The items had no market value and therefore were scrapped. The company bought new equipment for cash at sh. 157,000,000.

iv. The book value of the investments was sh. 45,000,000 but was sold for sh. 75,000,000.

v. Ordinary stock dividends provided for in the income statement amounted to sh. 30 million.

vi. Ordinary stock issued at par for land, sh. 50 million.

vii. 10% Preference stock issued for cash, sh. 160,000,000 entitled for the full year dividend.

viii. Bonds payable retired for cash, sh. 125,000,000.

Required: Cash flow statement in conformity with the requirements of IAS 7 for the year ended 30 June 2022. (20 marks)

QUESTION FOUR

a) Kikambara construction company Ltd. Won the contract for the construction of Wakazi College at a cost of sh. 240,000,000. The data relating to the contract for the year ended 31 December 2021were as given below:

	sh"000"
Materials issued to site	120,000
Materials purchased locally	14,600
Direct wages:	
Paid	5,800
Accrued	350
Plant purchased and installed	58,800
Direct expenditure	
Paid	1,640
Accrued	90
Establishment charges	160
Material returned to store	1,000
work certified	160,000
Cost of work not certified	2,400
Material on site on December 31	6,330
Value of plant on December 31	50,000

The company had received from the client, payments amounting to sh. 132,000,000.
Required:

i) Contract account (14 marks)
ii) Contractee account (3 marks)
iii) Show how the various items will appear in the balance sheet as at 31 December 2021. (3 marks)

QUESTION FIVE

Swara Club Limited prepares its financial statements on both historical cost accounting basis and inflation adjusted accounting method using current purchasing power method. Given below are the trading, profit and loss accounts for the year ended 31 December 2010 and comparative balance sheets of the company for the years endede 31 December 2009 and 31 December 2010.

Swara Club Limited

Statement of comprehensive income for the year ended 31-12-2010

Sales	2,120,000
Opening stock	(500,000)
Purchases	(1,000,000)
Closing stock	550,000
Gross profit	1,170,000
Expenses	(400,000)
Interest	(50,000)
Profit before tax	720,000
Tax	(200,000)
Profit after tax	520,000
Dividends	(250,000)
Retained earnings	270,000
Retained earnings b/f	800,000
Retained earnings c/f	1,070,000

Statement of financial position
As at 31 December

	2009	2010
	ksh	ksh
Fixed assets	1,000,000	950,000
Stock		

	500,000	550,000
Debtors	600,000	800,000
Bank and Cash	400,000	500,000
Creditors	(500,000)	(400,000)
Tax	(100,000)	(200,000)
Dividends	(200,000)	(250,000)
Net assets	**1,700,000**	**1,950,000**
Financed by:		
Ordinary shares	800,000	800,000
Loan	100,000	80,000
Revenue reserves	800,000	1,070,000
	1,700,000	**1,950,000**

Additional information:

1) Price indices were as follows;

At purchase of fixed assets	110
At the issue of shares	100
At 31st December 2009	160
At 31st October 2009	155
At 31 December 2010	180
At 31 October 2010	175
Average 2010	170
At 30 June 2010	165

2) Stocks are acquired on average 2 months before year end.

3) Half of the interest was paid on 30 June 2010; at the same time, part of the loan was paid.

4) The balance of the interest was paid at the year end.

Required: Restate the accounts to the current purchasing power (C.P.P). (20 marks