



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 2018/2019 ACADEMIC YEAR
NAIROBI / KISUMU CAMPUS

COURSE CODE: ABA 203

COURSE TITLE: INTERMEDIATE ACCOUNTING 1

EXAM VENUE: STREAM: (BBA)

DATE: 14/08/19 EXAM SESSION: 9.00 – 11.00AM

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 (30 MARKS)

- a) List and Explain the various types and forms of the following:
- i) Asset Accounts (4 marks)
 - ii) Valuation Methods (4 marks)
- b)
- i) What are Capital Expenditures (2 Marks)
 - ii) Enumerate any THREE advantages and disadvantages of Capital Expenditures (6 marks)
 - iii) Discuss any THREE efficient capital expenditure budgeting practices (6 marks)
- c) You are an accountant at XYZ Inc, a futuristic technology enabled financial services company. Its cash and cash equivalents as @ 1 January 2018 stood at Kshs: 2.2 million. A newly appointed treasury manager embarked on an aggressive investment spree. During the year the company entered into the following transactions:
- i) 1 January 2018: Obtained 60% holding in ABC, Inc. for Kshs: 300,000
 - ii) 1 February 2015: Purchased 18% of common stock of Bondo, Inc. a cutting-edge communication company for Kshs: 450,000 with intent to hold them for indefinite period.
 - iii) 1 March 2018: Invested Kshs: 55,000 in an equity mutual fund with intent to sell it in near future.
 - iv) 30 June 2018: Sold the equity mutual fund investment made on 1 March 2018 for Kshs: 60,000.
 - v) 1 July 2018: Invested in government bonds with face value of Kshs: 350,000 due by end of June 2023 carrying interest rate of 8% at par.
 - vi) 1 September 2018: Obtained 35% holding for Kshs: 320,000 in Ndori, Inc.

At the year-end, i.e 31st December 2018, investment in ABC, Inc. dropped to Kshs: 290,000, Investment in Bondo, Inc. rose to Kshs: 500,000 while investment in Ndori, Inc. was valued @ Kshs: 350,000. The company earned dividends of Kshs: 200,000 from ABC, Inc., nothing from Bondo, Inc., nothing from the equity mutual fund and nothing from Ndori, Inc. Ndori, Inc. net income for financial year 2018 amounted to Kshs: 15,000.

Required:

Classify the above investments into different traditional investment categories and outline the accounting treatment of related gains or losses. (8 marks)

QUESTION TWO (20 MARKS)

- a) Enumerate NINE advantages and disadvantages of a joint Venture **(9 marks)**
- b) Define Royalty and describe THREE of its types **(7 marks)**
- c) Write short notes on:
 - i) Tenet **(1 mark)**
 - ii) Lease Premium **(1 mark)**
 - iii) Surface Rent **(1 mark)**
 - iv) Land Lord **(1 mark)**

QUESTION THREE (20 MARKS)

- a) Define the term depreciation and discuss the factors affecting depreciation expense **(6 marks)**
- b) List and discuss FIVE methods of depreciation **(5 marks)**
- c) i) ABC LTD purchased a machine costing \$1000 on 1st January 2001. It had a useful life of three years over which it generated annual sales of \$800. ABC LTD's annual costs during the three years were \$300. If ABC LTD expensed the entire cost of the fixed asset in the year of purchase, present the picture of its income statement at the end of the three years **(4 marks)**
 - ii) If ABC LTD, instead of charging the entire cost of fixed asset at once, depreciates the capital expenditure over its useful life; present the picture of its income statement and balance sheet at the end of the three years **(4 marks)**
 - iii) Interpret your findings **(1 mark)**

QUESTION FOUR (20 MARKS)

- (a) What is hire purchase? Enumerate its pros and cons **(6 marks)**
- (b) Distinguish between:
 - i) Hire-purchase and Credit sales **(3 marks)**
 - ii) Hire-purchase and Installment System **(3 marks)**
- (c) On April 1, 2011 Reclamation Limited took delivery of a truck from Temple Truck Dealers on hire purchase. Payments were to be made by three equal installments of Kshs. 3,000 each on March 31, 2013 and 2014. The Cash value of the truck was Kshs. 8,170, the Vendors charging interest at 5% per annum on yearly balance. Reclamation Limited took delivery of a truck from Temple Truck Dealers on hire purchase, Payment to be made by three equal instalments of Kshs. 3,000 each on March 31, 2012, 2012 and 2014.

The Cash value of the truck was Kshs. 8,170, the vendors charging interest at 5% per annum on yearly balance. Reclamation Limited provides 25% depreciation on diminishing balance method. Calculate yearly interest to be charged to Profit and Loss Account. **(8 marks)**

QUESTION FIVE (20 MARKS)

- a) Enumerate with examples FOUR types of farming that's carried out on land **(4 marks)**
- b) Farming is unique. There are few other types of business that rely on living produce, whether it's crops or livestock. That makes farm accounting more complex than other businesses when it comes to assets, liabilities, costs and revenue. Depending on the country you're in, farming can be quite a regulated and subsidized industry. Then there's the weather, of course, which can have a dramatic effect on profit and loss. Accounting for all these factors is far from straightforward. But with a little thought and planning it's possible to get into a routine of managing the finances for every aspect of your farm's operation. There are ten important points to bear in mind about farm accounting. Name and discuss any FIVE of these points **(7 marks)**
- c) From the data given below, prepare a 'Cattle Account': **(9 marks)**

Item	Amount in Kshs:
Opening stock of livestock	150,000
Closing stock of livestock	250,000
Opening stock of cattle feed	8,000
Closing stock of cattle feed	6,000
Purchase of cattle during the year	400,000
Sale of cattle during the year	600,000
Sale of carcasses	2,000
Purchase of cattle feeds	25,000
Wages for rearing cattle	8,000

Crop worth Kshs: 10,000 grown in the farm was used for feeding cattle. Out of calves born 4 died and their carcasses realized Kshs: 100