**LUC- Naivasha Campus**

**BCOM 211: Intermidiate accounting**

**ATTEMPT QUESTION 1, AND CHOOSE TWO OTHER QUESTIONS**

1. a. S.Claus Company makes toys and gifts. At the beginning of July, it owned 200 litres of red paint, which were recorded on the balance sheet at Ksh. 4.00 per litre. The following events occurred in the next quarter.

* Purchased 300 litres on July 1 at Ksh. 4.25 each.
* Purchased 500 litres on August 1 at Ksh. 4.50 each.
* Purchased 800 litres during September at Ksh. 4.75 each.
* Used 1,450 litres during July through September.

Required

* Calculate the inventory balance at the end of September and the cost of goods sold during these three months, using FIFO accounting (4 mks).
* Calculate the inventory balance at the end of September and the cost of goods sold during these three months, using LIFO accounting (4 mks).
* Calculate the inventory balance at the end of September and the cost of goods sold during these three months, using the average cost method to determine inventory balances (4 mks).

b. Define share premium and discuss the uses that share premium can be put to. (6 mks)

c. A firm purchased land for Ksh. 150,000. Broker commissions of Ksh. 3,000 and other closing costs of Ksh. 1,800 were paid in acquiring the land. An old building that was on the land was demolished. The demolition costs were Ksh. 4,500, but some of the demolished building scrap parts were sold for Ksh. 2,200. In addition, there were delinquent real estate taxes of Ksh. 800 owing on the land, which the firm had to pay to acquire the land.

Required

* Calculate the total cost of the land (2 mks).
* Provide THREE reasons for not recording the land purchase at its nominal price of Ksh. 150,000 (3 mks).
* A firm purchased an oil well costing Ksh. 2,600,000, which is expected to produce five million barrels of oil. The well can probably be sold (disposal/ salvage value) for Ksh.100,000 after all the oil is extracted. If 500,000 barrels of oil were extracted and sold this year, what is the depreciation expense? (use the units of production method) (3 mks).

1. Define the term deffered tax and briefly explain how deffered taxes arise. (4 mks)
2. Kericho company LTD had the following non-current assets on January 1, 2009:

|  |  |  |
| --- | --- | --- |
| ASSET | COST(Ksh. Millions) | ACCUMULATED DEPPRECIATION (Ksh. Millions) |
| Motor vehicles | 500 | 60 |
| Furniture and fittings | 30 | 5 |
| Factory machinery | 1000 | 100 |
| Land and buildings | 800 | 120 |

The company’s depreciation policy is as follows:

* Motor vehicles are depreciated at 10% on cost.
* Furniture and fittings and Factory machinery are depreciated at 25% using the reducing balance method.
* Buildings are depreciated at 15% p.a. using the reducing balance method. The company’s land cost Ksh. 150,000,000.00
* Assets are depreciated a full year’s worth of depreciation on the year of acquisition (regardless of the month they were acquired). No depreciation is charged on an asset during the year it is disposed off.

The company acquired the following assets during the year ending 31st December, 2009.

|  |  |
| --- | --- |
| ASSET | COST (Ksh. Millions) |
| Motor vehicles | 15 |
| Furniture and fittings | 10 |
| Factory machinery | 200 |
| Buildings | 800 |

A motor vehicle that cost Ksh. 3,000,000.00 and an accumulated depreciation of 1,800,000.00 was disposed off in the year for Ksh. 2,000,000.00. Further, an item of buildings was reclassified to the furniture and fittings; the item cost Ksh. 1,000,000.00 and had an accumulated depreciation of Ksh. 500,000.00

REQUIRED:

1. The depreciation expense for the year ending 31st December 2009 for each of the class of assets (show all your workings) (13 mks).
2. The property, plant and equipment (PPE) movement schedule for the year (12 mks)
3. The disposal account for the motor vehicle disposed off, showing the disposal gain/ loss. (5 mks)
4. Define cash equivalents, and explain methods of controlling cash. (4 mks)
5. Compute the amount of cash and cash equivalents on Car Wash Company’s balance sheet if, on the balance sheet date, it has currency and coins on hand of Ksh. 125,000, deposits in checking accounts of Ksh. 750,000, Treasury bills due in 80 days of Ksh. 7,500,000, and Treasury bonds due in 200 days of Ksh. 12,500,000. (2 mks)
6. The following information is available for Prime Company as of April 30, 2011:

* Cash on the books as of April 30 amounted to Ksh.113, 175.28. Cash on the bank statement for the same date was Ksh.140, 717.08.
* A deposit of Ksh.14, 349.84, representing cash receipts of April 30, did not appear on the bank statement.
* Outstanding checks totalled Ksh.7, 302.64.
* A check for Ksh.2, 420.00 returned with the statement was recorded as Ksh.2, 024.00. The check was for advertising.
* The bank service charge for April amounted to Ksh.35.00.
* The bank collected Ksh.36, 300.00 for Prime Company on a note. The face value of the note was Ksh.36,000.00
* An NSF check for Ksh.1, 140.00 from a customer, Tom Jones, was returned with the statement.
* The bank mistakenly deducted a check for Ksh.700.00 that was drawn by Tiger Corporation.
* The bank reported a credit of Ksh.560.00 for interest on the average balance.

***Required***

* Prepare bank reconciliation for Prime Company as of April 30, 2011. (8 mks)
* State the amount of cash that should appear on Prime Company’s balance sheet as of April 30. (2 mks)
* Why is bank reconciliation a necessary internal control? (4 mks)

1. Discuss the term intangible asset and give SIX examples of such assets. (4 mks)
2. Why should an annual impairment test be conducted on intangible assets? (4 mks)
3. At the beginning of the fiscal year, Andy Company purchased for Ksh.2,060,000 a patent that applies to the manufacture of a unique tamper-proof lid for medicine bottles. Andy incurred legal costs of Ksh.900,000 in successfully defending use of the lid by a competitor. Andy estimated that the patent would be valuable for at least ten years. During the first two years of operations, Andy Company successfully marketed the lid. At the beginning of the third year, a study appeared in a consumer magazine showing that children could in fact remove the lid. As a result, all orders for the lids were cancelled, and the patent was rendered worthless. Prepare entries in journal form to record the following:

(a) Purchase of the patent; (3 mks)

(b) Successful defence of the patent; (3 mks)

(c) Amortization expense for the first year; and (3 mks)

(d) Write-off of the patent as worthless. (3 mks)

* 1. Discuss in detail the conceptual framework of financial reporting. (8 mks)
  2. Discuss the components of a financial report. (6 mks)
  3. Discuss the role of the generally accepted accounting principles and accounting standards relate to financial reporting and identify the bodies that influence GAAPs and accounting standards (6 mks).