**BUST 211: INTERMIDIATE FINANCIAL 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. A. Describe why a firm’s owners might prefer a corporate structure, rather than a partnership (4 mks).

b. Describe two differences between common and preferred stock (2 mks).

c. DWN Corporation began operations in 2010. The following are some transactions for the year:

* + Issue one million shares of Ksh. 5.00 par value common stock as follows:
    - Subscription Ksh. 1 per share.
    - First Call- Ksh. 13 per share (including the share premium).
    - Second and final call Ksh. 1 per share.
  + Issued 200,000 8% preference shares of Ksh. 5 par value at par.
  + Declare and pay dividends of Ksh. 200,000 on the common stock.
  + Pay preference dividends.
  + Purchase back 10,000 shares (Ksh. 5 par) of its common stock Ksh. 15.00 per share.

**REQUIRED**

* Journal entries to record transactions above. (8 mks)
* Ledger accounts for the transactions for the transactions (4 mks).
* Extract statement of financial position showing the equity section only (2 mks).

1. 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. The following trial balance was prepared by Mtangwe LTD as at 30 December 2009.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Ksh ‘000 | Ksh ‘000 |
| Ordinary share capital of Ksh 10 each |  |  | 20,000 |
| 8% redeemable preference shares |  |  | 12,000 |
| 6% debentures |  |  | 10,000 |
| Revaluation reserve |  |  | 3,400 |
| Sales |  |  | 323,920 |
| Inventory (As at January 1, 2009) |  | 12400 |  |
| Purchases |  | 147200 |  |
| Distribution costs |  | 22,300 |  |
| Administrative expenses |  | 34,440 |  |
| Interest paid on debentures |  | 600 |  |
| Interim dividends paid | Ordinary shares | 2,000 |  |
|  | Preference shares | 480 |  |
| Investment income |  |  | 1,500 |
| Leasehold building |  | 56,250 |  |
| Plant and equipment at cost |  | 55,000 |  |
| Furniture and fittings at cost |  | 35,000 |  |
| Investments |  | 34,500 |  |
| Accumulated deppreciation | Leasehold buldings |  | 18,000 |
|  | Plant and equipment |  | 12,800 |
|  | Furniture and fittings |  | 9,600 |
| Accounts recievable |  | 35,700 |  |
| Bank overdraft |  |  | 1,680 |
| Accounts payable |  |  | 17,770 |
| Deffered tax |  |  | 5,200 |
|  |  |  |  |
|  |  | **435,870** | **435,870** |

Additional information:

* The company’s inventory taken on January 2, 2010 was valued at Ksh. 16 million.
* The policy of the company in relation to depreciation of its fixed assets is as follows:

ASSET RATE

Leasehold building 4% per annum on straight line basis

Plant and equipment 20% per annum on straight line basis

Furniture and fittings 40% per annum on reducing balance basis

* Depreciation is classified as a cost of sales item except for depreciation on furniture and fittings which is classified as an administrative expense.
* A provision for corporation tax of Ksh. 23.4 million is required for the year.
* The deffered tax liability is to be increased by Ksh. 2.2 million.
* The directors proposed to pay a final ordinary dividend of 10%.

REQUIRED

Prepare the following accounts in accordance with the international financial reporting standards

Income statement for the year ended 31 December 2009. (8 marks)

Statement of changes in equity for the year ended 31 December 2009. (7.5 marks)

Statement of financial position for the year ended 31 December 2009. (8 marks)

5.

a. Define the term partnership and outline three characteristics of a partnership. (6 mks)

b. Discuss briefly TWO of the contents in a partnership agreement. (2 mks).

c. Kamau, Wafula and Okinyo are partners. They share profits and losses in the ratios of 3/8, 3/8 and 1/4 respectively. For the year ended 31 December 2010 their capital accounts remained fixed at the following amounts:

Ksh.

Kamau 50,000

Wafula 40,000

Okinyo 30,000

They have agreed to give each other 5 per cent interest per annum on their capital accounts. In addition to the above, annual partnership salaries of Ksh. 32,000 for Wafula and Ksh.14, 000 for Okinyo are to be charged. The net profit of the partnership before taking any of the above into account was Ksh. 104,800.

Required:

* Draw the current account for the partnership. (3 mks)
* Draw up the appropriation account of the partnership for the year ended 31 December 2010. (9 mks)