**LAIKIPIA UNIVERSITY COLLEGE**

**BUST 211 INTERMIDIATE ACCOUNTING**

Attempt TWO questions in section A and ONE question in section B.

SECTION A

1. On october 1, 2006, Plateau LTD advertised the floatation of 3,000,000 ordinary shares of Ksh. 10 par each. The terms of payment were as follows.

* Ksh. 3 per share application fee.
* Ksh. 5 per share allotment fee (Including the premium).
* Ksh. 2 per share on first call.
* Ksh. 2 per share on second and final call.

All the cash was received

**REQUIRED:**

1. Journal entries in the books of Plateau LTD to record the above transactions. (10 mks)
2. Ledger accounts in the books of Plateau LTD to record the above transactions (13.5 mks)
3. ABC LTD, a motor vehicle dealer closes its books on the 30th of June Every year. In the current year, the company is valuing its inventory as a step in closing its books. The accountant extracted the following summary on its inventory.

COST OF INVENTORY Ksh. Millions

Purchase price of vehicles ................................. 150

Shipping costs .......................................................15

Cost of refurbishment (Before sale) .......................5

General adm inistrative overheads .........................2

TOTAL 172

The expected selling price of the inventory is Ksh. 184 million. The stock can only be disposed after incurring the following expenses: Refurbishment of vehicles before sale Ksh. 1 million, and Selling expenses, Ksh. 11 million.

Required:

* + 1. State the two methods of inventory valuation allowed under IAS 2. (2 mks)
    2. State the method of inventory valuation that is not allowed under IAS 2, and the reason why it is not allowed. (2 mks).
    3. Define and briefly expalin the term *Net Realizable Value.(*2 mks)
    4. By doing the appropriate calculations, state the figure that will appear in the statement of financial posit ion of the company, and state the reason behind your choice? (8 mks)
    5. The following is an extract trial balance for the company;

|  |  |  |
| --- | --- | --- |
|  | DR (Ksh. Millions) | CR (Ksh. Millions) |
| Bank | 20 |  |
| Account recievable | 4 |  |
| Interest payable |  | 8 |
| Ordinary shares outstanding of Ksh. 10 each |  | 200 |
| Debentures |  | 15 |

Draw an extract statement of financial position as at 30th June for ABC LTD (9.5 mks).

1. 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 deppreciation 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

* Deppreciation is classified as a cost of sales item except for deppreciation 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)

SECTION B

1. An important requirement of the IASB’s Framework for the Preparation and Presentation of Financial Statements (The Framework) is that in order to be reliable, an entity’s financial statements should represent faithfully the transactions and events that it has undertaken and observe consistency in the presentation of financial statements.

**REQUIRED:**

List SIX components that comprise a complete set of financial statements (6 marks).

Explain what is meant by faithful representation and how it enhances reliability. (6 marks)

Discuss what is meant by consistency of presentation, and conditions under which the classification and representation of items in financial statements may be changed. (8 marks).

Discuss briefly the position of international financial reporting standards in regards to offsetting of assets/ liabilities and income/ expenses. (3.5 marks)

1. i Write short notes on the following:
   1. Cumulative Vs non- cumulative preffered stock (4 marks).
   2. Convertible Vs non- convertible preffered stock (4 marks).
   3. Participating vs non- participating preffered stock (4 marks)

ii. State and briefly discuss 2 types of debentures (4 marks).

iii. Discuss the accounting treatment in regards to:

* changes in accounting policies (4 marks)
* Changes in accounting estimates (3.5 marks).