**LAIKIPIA UNIVERSITY COLLEGE**

**BUST 211 INTERMIDIATE ACCOUNTING**

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

SECTION A

1. ABC LTD, a dealer in plastic containers and water tanks 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.

|  |  |  |
| --- | --- | --- |
| **ASSET** | **COST (Ksh)** | **NET REALIZABLE VALUE (Ksh)** |
| Buckets | 300,000.00 | 280,000.00 |
| Water tanks (500 litres) | 500,000.00 | 550,000.00 |
| Water tanks (500 litres) | 800,000.00 | 795,000.00 |
| Water tanks (1500 liters) | 600,000.00 | 620,000.00 |
| Water tanks (3000 litres) | 2,000,000.00 | 2,050,000.00 |
| Water tanks (5000 litres) | 3,000,000.00 | 2,500,000.00 |
| Water tanks (10,000 liters) | 5,000,000.00 | 5,000,000.00 |

Required:

* + 1. State the two methods of inventory valuation allowed under IAS 2. (4 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 position (Balance sheet) of the company, and state the reason behind your choice? (10.5 mks)
    5. Calculate the figure that will appear in the statement of comprehensive incomes, being a gain/ loss on valuation of inventory (2 mks).
    6. 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 (5 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 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).