The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2019

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS/COMMERCE

UNIT CODE: HBC 2202

UNIT TITLE: INTERMEDIATE ACCOUNTING I

DATE: DECEMBER, 2019 **TIME:**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) X LTD sold merchandise on credit of Kshs 500,000 on 5th April 2019 on the following terms: 5% trade discount and 3/10, n/30. On 14th April 2019, the customer paid kshs 250,000 and cleared the balance on 30th April, 2019.

Required:

Prepare journal entries for the above using gross and net methods (15 marks)

(b) Y LTD acquired the following asset for Kshs 8 million in a basket purchase:

Assets	Carrying value	Market value
Land	1,200,000	1,500,000
Furniture	800,000	750,000
Motor vehicles	3,200,000	3,500,000
Equipment	1,450,000	1,200,000

Required:

i) Journal entries to record the above (5 marks)

(c) Z LTD bought 3 machines on 1st January 2019 for Kshs 60,000 each whose useful lives were 5 years without scrap value. On 30th December 2013, Z Ltd sold 2 machines for Kshs 25,000 each

Required:

Ledger accounts to record the above (10 marks)

QUESTION TWO

(a) Identify the external and internal indicators of asset impairment as per (10 marks)

(b) Unity Ltd's tangible non-current assets had a cost of kshs 58 million and accumulated depreciation of Kshs 12 million at the end of year 2016. Due to intense competition, the company lost a significant part of its market and hence the directors decided to perform and impairment review of the company's assets.

It was estimated that the tangible non-current assets were expected to generate to generate Ksh 12 million per year as cash flows over the next 5 years at a discount rate is 12%. It was also estimated that the assets had a market value of Kshs 50 million

Required:

Established whether the assets of the company had been impaired and if impaired, show the necessary accounting entries (10 marks)

QUESTION THREE

(a) Karen Cooperative Ltd purchased a machine for use in production at Kshs 500,000. The useful life of the machine was 5 years and the residual value was kshs 50,000.

The machine was disposed of after 5 years of use. Actual production during the five years of the asset life was:

Year	Units produced
1	180,000
2	190,000
3	195,000
4	160,000
5	156,000

Required:

Deter the depreciation of the machine using

i) Sum of the year's digits (SYD) method (5 marks)

ii) Declining balance method (5 marks)

iii) Units of production method (5 marks)

iv) Straight line method (5 marks)

QUESTION FOUR

(a) Describe the components of research and development cost as per IAS 38 (4 marks)

(b) Describe the criteria applicable for determining whether to capitalize development cost or to expense it (6 marks)

(c) The trial balance as at 31st March, 2014 of General Traders displayed the following fixed assets cost: Freehold land kshs 140 million, Building shs 120 million, Plant & Machinery shs 20 million and motor vehicles shs 10 million. It also displayed accumulated depreciation of the above fixed assets as follows: Building shs 30 million, Plan & Machinery Kshs 8 million and motor vehicles shs 4 million

Additional information indicated:

i) Building are depreciated at 2% per annum straight line and scrap value was estimated at 2 million

ii) Plant & machinery are to be depreciated at 15% per annum on reducing balance basis

iii) Vehicles were depreciated at 20% straight line basis. Some old vehicle that cost Kshs 6 million 2 years ago were disposed for Kshs 3 million during the year and replaced with new ones costing Kshs 12 million during the year. Assume no depreciation in the year of disposal and full year's depreciation in the year of acquisition

iv) Land was revalued upwards by Kshs 20 million

Required:

Prepare a fixed asset movement schedule at 31st March 2019 (10 marks)

QUESTION FIVE

(a) Suppose the trial balance extract of KQ showed account receivables amounting to Kshs 800,000 and provision for doubtful debts of kshs 40,000 at the beginning of year 2014

The additional information attached to the trail balance indicated that during the year 2014: bad debts written off amounted to Kshs 20,000 and the closing provision for doubtful debts amounted to 5% of net debtors.

Required: Prepare the extract of statement of comprehensive income and financial positions at year end (10 marks)

(b) In take-over bid, A ltd acquired all assets of B Ltd a a lumo sum cost of Kshs 36 M. The values of the various assets acquired were as follows;

	Market values	**NBV**
Operating assets	Kshs	Kshs

Land & Buildings	12 M	10 M
Plant & equipment	6 M	5 M
Vehicles	6 M	4.5 M
Furniture and fittings	1.5 M	1 M
Total	**25.5 M**	**20.5M**

Required:

i) Determine the cost to allocate to each asset item (5 marks)

(c) Identify only one accounting convention to guide accountant in the treatment of the following items:

i) As asset donated to a firm by a charitable organization

ii) Expenses incurred but not recorded because they have been paid for

iii) The cost of waste paper basket acquired for the office use

iv) Anticipation that 5% of debtors will not be collectible in cash

v) The company has leased a vehicle which has been recorded as an asset in the company's books

vi) Fixtures and fittings acquired three years ago have since increased in Market

(5 marks)