



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAINCAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE OF

BACHELOR OF COMMERCE

COURSE CODE: HBC 2201

COURSE TITLE: INTERMEDIATE ACCOUNTING 1

DATE: 21ST APRIL 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory

Answer THREE (3) questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 2 printed pages. Please turn over



QUESTION ONE

- a) TSR Ltd sell their product offering 30 days credit to customers. Uncollectible amounts are estimated by accruing a monthly charge to bad debt expense at 3% of credit sales. At the end of the year the allowance for uncollectible account is adjusted on an ageing of accounts receivable. The company began in 2014 with the following balances in its accounts

Accounts receivable	sh384,000
Allowance for uncollectible accounts	sh 37,000

During the year, credit sales amounted to sh 2,000,000. Cash collected was 1,983,000. Actual write offs were sh 45,500. An ageing of accounts receivable indicates a required allowance of sh 64,750.

Required:

Calculate the balance in accounts receivable , uncollectible and bad debts accounts at the end of

2013 (12 marks)

- b. Explain any four objectives of accounting (8marks)

- c. The following table relates to Sajco ltd for one month

Date	Transaction	Quantity in units	Cost in sh
June 1	Opening inventory	14000	40
June 5	Purchases	2000	44
June 8	Sales	10000	
June 15	Purchases	12000	45
June 19	Purchases	4000	49
June 24	Sales	8000	
June 26	Sales	2000	
June 27	Purchases	4000	56
June 29	Sales	3500	

Required: Using the average cost method calculate cost of sales and closing inventory under Periodic system (8marks)

QUESTION TWO

a. Discuss Four objectives of accounting (10 marks)

b. A mining company purchased a coal mine on Jan 1 2015 for sh5, 600,000. The estimated capacity of the mine is 1,750,000 tons of coal and the estimated salvage value is zero. The company incurred additional sh50,000 on development of mine for extraction purposes. They had extracted 420,000 tons of coal from the mine up to Jan 31, 2015 and the coal extracted from the mine, with in Jan 2015.

Required:

i. Calculate the depletion expense on the mine for the month ending Jan 31, 2015

(3marks)

ii. Show journal entries to record depletion expense

(2marks)

c. Mamito ltd owns a free hold building. The building is used by the company for its own operations and is therefore not to be treated as an investment property. As at Jan1 2015 the company balances were as follows

Land	600,000	
Building :Cost	300,000	
Depreciation (8years At 2%)	(48,000)	
Net Book Value		852,000

The building was revalued on the last day of the year as follows

Land	sh 860,000
Building	<u>Sh380, 000</u>

Required:

Calculate the deficit or surplus on revaluation (5marks)

QUESTION THREE

The following information relates to Dibco Ltd for the month of August 2015

Purchases

400,000

Sales

600,000

Wages

60,000

Rent

30,000

Motor van expenses

10,000

Electricity

5,000

Rent

6,500

Additional information

- 1.70% of sales and 40% of purchases were on cash
2. All expenses apart from wages are paid for on cash
3. Included in Motor van expenses is sh 4,000 depreciation

Calculate the net profit under: Accrual basis and Cash basis (10marks)

b. Discuss the internal and external factors that provide evidence of impairment of an asset

(10 marks)

QUESTION FOUR

- a. Distinguish between depreciation, depletion and amortization. (6marks)
- b. Explain four characteristics of a finance lease. (4marks)

c. Zaselaa mining company operates a copper mine. The company paid sh 5,000,000 for the mining site and spent an additional sh 2,200,000 for exploration and sh 2,300,000 to prepare the mine for extraction. After the copper is extracted in three years, the company is required to restore the land to recreational use. The company has provided the following cash flow possibilities

Cash flow	probability
1,400,000	30%
1,600,000	25%
1,800,000	20%
2,000,000	25%

To aid extraction, the company purchased mining equipment for sh 900,000. The risk-free interest rate is 8%

Required:

- I Determine the capitalized cost of the copper mine (8marks)
- Show how the transaction will be recorded by the company. (2marks)