



MURANG'A UNIVERSITY COLLEGE
(A constituent college of Jomo Kenyatta University of Agriculture and Technology)

BACHELOR OF COMMERCE YEAR 2 SEMESTER 1
END OF SEMESTER ORDINARY EXAMINATION 2013
HBC 2201: INTERMEDIATE ACCOUNTING 1
TIME: 2 hours

Attempt question one and any other two questions

DATE: 9TH DECEMBER 2013

TIME: 2 HOURS

QUESTION 1

- a) Define the term a 'conceptual framework' of accounting and advantages and disadvantages of developing a conceptual framework. (10 marks)
- b) A business purchased two rivet-making machines on 1 January 2005 at a cost of shs 1,500,000 each. Each had an estimated life of five years and a nil residual value. The straight line method of depreciation is used.
Owing to an unforeseen slump in market demand for rivets, the business decided to reduce its output of rivets, and switch to making other products instead. On 31 March 2007, one rivet-making machine was sold (on credit) to a buyer for shs 800,000.
Later in the year, however, it was decided to abandon production of rivets altogether, and the second machine was sold on 1 December 2007 for 250,000 cash.

Required

Prepare the machinery account, provision for depreciation of machinery account and disposal of machinery account for the accounting year to 31 December 20X7. (10 marks)

- c) At the end of the year, two similar companies were in the process of calculating bad debt expense for the year. Each company had credit sales of \$1,000,000 and a debit balance in Allowance for Uncollectible Accounts of \$2,000 before any year-end adjustment. The balance of Accounts Receivable is \$180,000. Company A estimates that 5% of accounts receivable will not be collected over the next year while Company B estimates that 5% of credit sales will not be collected over the next year
Determine the following for Company A and B respectively
- The uncollectible accounts expense for the year.
 - The adjusting entry to be made of December 31.
 - The balance in Allowance for Doubtful Accounts after adjustment. (10marks)

QUESTION 2

- a) IAS 16: Property, Plant and Equipment gives certain criteria to be satisfied before an item of property, plant and equipment should be recognized as an asset. State these criteria and state the value at which the asset should be measured initially. Give six examples of directly attributable costs that could be included in the value and four examples of cost that should not be included in the value.

(10 marks)

b) The following information relates to Johnson Plc for the year 2005

At 31 December 2005 Johnson plc had the following PPE balances:

	<i>Cost</i> <i>£000</i>	<i>Accumulated</i> <i>depreciation</i> <i>£000</i>	<i>Net book</i> <i>value</i> <i>£000</i>
Land & buildings	5,880	388	5,492
Plant & equipment	3,930	1,180	2,750
Fixtures & fittings	<u>1,200</u>	<u>420</u>	<u>780</u>
Total	<u>11,010</u>	<u>1,988</u>	<u>9,022</u>

The standard rates of depreciation charged are as follows:

- Buildings (which account for £3,880 of the cost of land and buildings) – 2% straight line basis;
- Plant & equipment – 20% straight line basis;
- Fixtures & fittings – 10% straight line basis.

It is the company's practice to make a full year's charge on new items in the year of purchase.

The following additional information is relevant for the year ended 31 December 2006:

- On 1 January 2006 the land & buildings were revalued at £8.4 million (of which the building accounts for £6.9 million). They had originally been acquired on 1 January 20x1.
- Fixtures & fittings costing £400,000 were acquired during the year. Installation costs for these items were £10,000 and maintenance costs were £3,000. Also plant & machinery costing £560,000 was purchased.
- A machine purchased on 1 January 2003 for £500,000 was sold during 20x6 for £240,000.
- An item of plant purchased on 1 January 2005 for £600,000 is now expected to have a total useful economic life of just 4 years.

Required:

Prepare a schedule of PPE movements suitable for inclusion in the company's published accounts for 31 December 2006. (10 marks)

QUESTION 3

a) Identify and explain four indicators which show that an impairment loss to a fixed asset may have occurred. (8 marks)

b) A patent right is acquired July 1, 2003, for sh 250,000; while it has a legal life of 15 years, due to rapidly changing technology, management estimates a useful life of only 5 years. Straight-line amortization will be used. At January 1, 2004, management is uncertain that the process can actually be made economically feasible, and decides to write down the patent to an estimated market value of sh 75,000. Amortization will be taken over 3 years from that point. On January 1, 2006, having perfected the related production process, the asset is now appraised at a sound value of sh 300,000. Furthermore, the estimated useful life is now believed to be 6 more years.

Required

Show the journal entries to record the above transactions (12 marks)

QUESTION 4

- Identify and explain the accounting conventions to guide accountants in the treatment of the following items:
 - Determination of the span of time covered by a profit and loss account.

- (ii) An increase in owners' equity or a decrease in owners' equity not reported in the income statement.
- (iii) The company has employed highly qualified staff. This has been responsible for its good performance of 40% return on investment.
- (iv) The systematic allocation of the cost of a fixed asset to expense.
- (v) An asset donated to a firm by a charitable organization
- (vi) Expenses incurred but not recorded because they have not been paid for
- (vii) The cost of waste paper basket acquired for office use
- (viii) Anticipation that 10% of debtors will not be collectible in cash.
- (ix) Fixtures and fittings acquired three years ago have since increased in market value.
- (x) The owner of a business acquires a patent right paying sh 1 million and also estimates that the business has goodwill valued at sh 800,000.

(20 marks)

QUESTION 5

a) The following information is available for the Johnson Corporation for 2012:

	Shs
Beginning inventory	25,000
Merchandise purchases (on account)	150,000
Freight charges on purchases (paid in cash)	10,000
Merchandise returned to supplier (for credit)	12,000
Ending inventory	30,000
Sales (on account)	250,000
Cost of merchandise sold	143,000

Required:

Applying both a perpetual and a periodic inventory system, prepare the journal entries that summarize the transactions that created these balances. Include all end-of-period adjusting entries indicated. (12 marks)

b) A fire destroyed a ware house of the Goren Group, Inc. on May 4, 2012. Accounting records on that date indicated the following:

Merchandise inventory, January 1, 2012	\$1,800,000
Purchase to date	5,800,000
Freight-in	400,000
Sales to date	9,200,000

The gross mark-up has averaged 30% for the past four years.

Required:

Use the gross profit method to estimate the cost of the inventory destroyed in the fire. (8 marks)