



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: 9TH DECEMBER 2015

TIME:2HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer any other TWO(2) questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 2 printed pages. Please turn over



Question one

The following information relates to Natco Ltd for the month of April 2015

Purchases	400,000
Sales	600,000
Wages	80,000
Rent	40,000
Motor van expenses	20,000
Stationery	5,000
Rates	6,500

Additional information

1. 40% of sales and 50% of purchases were on credit
2. All expenses apart from wages are paid for on cash
3. Included in Motor van expenses is sh 6,000 depreciation

Calculate the net profit under: Accrual basis and Cash basis (8marks)

b. Discuss the internal and external factors that provide evidence of impairment of an asset (10 marks)

c. Mazeila 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
1,600,000	20%
1,700,000	25%
1,800,000	30%
1,900,000	25%

To aid extraction , the company purchased mining equipment for sh 900,000. The risk free interest rate is 10%

Required:

- i. Determine the capitalized cost of the coal mine (12marks)

Question Two

- a) PLC ltd sell their product offering 30 days credit to customers. Uncollectible amounts are estimated by accruing a monthly charge to bad debt expense at 1% 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 2013 with the following balances in its accounts

Accounts receivable	sh490,000
Allowance for uncollectible accounts	sh 45,000

During the year, credit sales amounted to sh 1,950,000. Cash collected was 1,875,000. Actual write offs were sh 37,500. An ageing of accounts receivable indicates a required allowance of sh 38,000.

Required:

- a. Calculate the balance in accounts receivable and uncollectible accounts at the end of 2013(10marks)
- b. Calculate the bad debt expense (5marks)
- c. .Explain any five types of intangible assets (5marks)

Question Three

. The following table relates to Matco ltd for one month

Date	Transaction	Quantity in units	Cost in sh
may 1	Opening inventory	14000	30
May 5	Purchases	2000	34
may 8	Sales	10000	
may 15	Purchases	12000	35
may 19	Purchases	4000	39
may 24	Sales	8000	
may 26	Sales	2000	
may 27	Purchases	4000	45
may 29	Sales	3500	

Required: Using the average cost method calculate cost of sales and closing inventory under

- a. Periodic system (8marks)
- b. Perpetual inventory system (12marks)

QUESTION FOUR

a. Discuss the objectives of the conceptual framework of accounting (10 marks)

b. A mining company purchased a coal mine on Jan 1 2014 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, 2014 and sold all but 20,000 tons of the coal extracted from the mine, with in Jan 2014.

Required:

- i. Calculate the depletion expense on the mine for the month ending Jan 31, 2014
 - ii. Show journal entries to record depletion expense
- c. Mamolito 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 2014 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)