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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**SECOND YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 8<sup>th</sup> December, 2022  
Time: 11.30am –1.30pm

**KAC 201 - INTERMEDIATE ACCOUNTING 11**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Explain the meaning of the following terms
- i) Trade name. (2 marks)
  - ii) Dead rent. (3 marks)
- b) Maguna supermarkets has many branches in Central Kenya. Discuss the control systems required to be put in place by a head office in relation to the branches? (5 marks)
- c) Kahawa Ltd has an authorized nominal capital of Shs200, 000 ordinary shares of Shs10 par value each. The whole capital was issued on the following terms
- |                       |                        |
|-----------------------|------------------------|
| On application        | 2.00                   |
| On allotment          | 6.50 including premium |
| First call            | 2.50                   |
| Second and final call | 3.00                   |
- Applications were received for 330,000 shares. An applicant for 30000 shares was rejected and monies refunded. The Directors decided to allot the balance of the shares on the basis of two for every three applied for. The balance of application monies was to be applied to the allotment. Applicants paid the allotment monies as expected. Other calls were made and paid for in full with the exception of a member who failed to pay for the first and the second call on the 1500 shares allotted to him. A resolution was made by the directors to forfeit the shares. The shares were later issued to another person at Shs8 per share fully paid.

Required. In relation to the above post the following accounts

- i) Cash book. (4 Marks)
- ii) Application & allotment account (3 Marks)
- iii) First call account. (2 Marks)
- iv) Second call account. (2 Marks)
- v) Calls-in-arrears account. (2 Marks)
- vi) Forfeited shares account. (2 Marks)
- vii) Share premium account. (2 Marks)
- viii) OSC account. (3 Marks)

## **QUESTION TWO (20 MARKS)**

- a) Sukari Extractors Ltd acquired the rights to remove marrum deposits from Land owned by A. Farmer. The agreement provided for

- The payment of a royalty of Shs200 per ton of marrum extracted
- A minimum payment of Shs1000000 per annum
- Recoupment rights for short workings to expire at the end of year 3.

During the first four years of the contract the following quantities were extracted.

<u>Period</u>	<u>Tons extracted</u>
Year 1	4000
Year 2	4800
Year 3	5400
Year 4	5600

The company's accounting year ends on 31<sup>st</sup> December.

Required

- i) Cash book. (5 Marks)
- ii) Royalty account. (4 Marks)
- iii) Landlord account. (5 Marks)
- iv) Operating account. (3 Marks)
- v) Short-workings account (3 Marks)

## **QUESTION THREE (20 MARKS)**

- a) Discuss the accountants' justification for charging depreciation in the financial statements. (6 Marks)
- b) Under what circumstances would the reducing balance method be better than the straight line method. (3 Marks)
- c) QY Ltd bought a printer in January 2020 for Shs500000. The printer is estimated to have a useful life of 5 years with a residual value of Shs50000. Tabulate the depreciation charge to be used in the income statement for each of the five years using
- i) The actuarial method
  - ii) The rule of 78. (6 Marks)
- d) Discuss the importance of charging dead rent from the point of view of the landlord. (5 Marks)

## **QUESTION FOUR (20 MARKS)**

- a) Differentiate between a finance lease and a hire purchase contract. (4 Marks)
- b) Kaimosi Retail Traders sold a music system to Karoney on 1<sup>st</sup> July 2017 on hire purchase under the following terms.
- Hire purchase price Shs400,000
  - Cash price Shs352,000
  - Deposit Shs80,000
  - Balance to be settled at the rate of Shs20,000 per month for 16 months payable on the last day of the month. Karoney defaulted from 31<sup>st</sup> May 2018. The company henceforth went ahead and reprocessed the radio system. The system was revalued at Shs130,000.

**Required:**

- |                           |           |
|---------------------------|-----------|
| i) Sales account.         | (2 Marks) |
| ii) HP interest account   | (4 Marks) |
| iii) Karoney account.     | (6 Marks) |
| iv) Repossessions account | (4 Marks) |

**QUESTION FIVE (20 MARKS)**

Yang Yu Ltd was awarded a contract to tarmac a road from Kahawa to Ruai on 1/7/2018 and was to be completed by mid-2015. The following information was extracted from the accounting records of the company as at 30/06/2019.

	<u>Sh.</u>
Materials – issued from store	6,500,000
– by a supplier to the site	12,200,000
Labour	9,100,000
Sub-contracting fee	5,501,000
Plant and machinery bought on 1/7/2018	6,000,000
Tools & consumables	126,000
Head office expense – apportioned	1,184,000

On 30/6/2019 materials at site were valued at sh. 2,100,300. On the same day outstanding wages were sh. 350,000 and subcontract work sh. 25,000. The company received sh. 36,000,000 from the contractee which represents work certified as at 30/6/2019 after deducting 15% retention money. It is estimated that work costing sh.360, 000 is not covered by the certificate. The plant and machinery specifically purchased for the project is to be depreciated at 20% straight line with no residual value. The company only takes 2/3 of the profits on the work certified to its revenue account.

**Required;**

- |  |            |
|--|------------|
| a) Prepare a contract account to 30/6/2019 | (10 Marks) |
| b) Work in progress account                | (5 Marks)  |
| c) Relevant balance sheet extracts.        | (5 marks)  |