



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

SEPTEMBER – DECEMBER 2019 TRIMESTER

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAD 081: INTERMEDIATE ACCOUNTING

Date: DECEMBER 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1. a) On 1 January 2019, Macdonald entered into a two-year lease for a lorry. The contract contains an option to extend the lease term for a further year. Macdonald believes that it is reasonably certain to exercise this option. Lorries have a useful economic life of ten years. Lease payments are \$20,000 per year for the initial term and \$30,000 per year for the option period. All payments are due at the end of the year. To obtain the lease, Macdonald incurs initial direct costs of \$5,000. The lessor reimburses \$1,000 of these costs. The interest rate within the lease is not readily determinable. Macdonald's incremental rate of borrowing is 5%.

Required:

- a) calculate the initial carrying amount of the lease liability and the right-of-use asset and provide the double entries needed to record these amounts in Macdonald's financial records. **(10 marks)**
- b) A company's bank statement shows \$715 direct debits and \$353 investment income not recorded in the cash book. The bank statement does not show a customer's cheque for \$875 entered in the cash book on the last day of the accounting period. If the cash book shows a credit balance of \$610, what balance appears on the bank statement? **(5 marks)**
- c) Net assets at the beginning of 2017 were \$101,700. The proprietor injected new capital of \$8,000 during the year and took drawings of \$2,200. Net assets at the end of 2017 were \$180,000. What was the profit earned by the business in 2017? **(5 marks)**

d) Harry has budgeted sales for the coming year of \$175,000. He achieves a constant mark-up of 40% on cost. He plans to reduce his inventory level by \$13,000 over the year. What will Harry's purchases be for the year?

(5 marks)

e) Distinguish between net operating cycle and operating cycle of a business.

(5 marks)

Q2. a) Discuss the concept applied to record the transaction if the owner of a business takes goods from inventory for his own personal use

(5 marks)

b) Which concept is applied when a business records the cost of a non-current asset even though it does not legally own it?

(5 marks)

c) Discuss subsequent expenditure in valuation of assets at cost.

(7 marks)

d) How is inventory valued under IAS 2

(3 marks)

Q3. a) The Yard Ltd's year-end is 31 December 2017. In November 2017 they dismiss an employee. In February 2018 a customer slips whilst on their premises and breaks her arm. In March 2018 both the employee and the injured customer sue The Yard Ltd; the former for unfair dismissal and the latter for compensation for injuries suffered on The Yard's premises. Should an obligation be recognized at 31 December 2017 for either of these lawsuits?

(5 marks)

b) Write short notes on the following;

- i) Contingent liabilities
- ii) Receivables
- iii) Marketable securities
- iv) Inventory

(8 marks)

c) Discuss the differences between ordinary shareholders and preference shareholders

(5 marks)

- d) Explain why preference shares are termed as “liabilities” to the business
(2 marks)

Q4. a) The following details were extracted from the stores ledger card of a small manufacturing company during the month of April 2017

Date	
2	opening stock – 400 units valued at Sh. 1,600
4	received 200 units @ SH. 5 each
10	issued 500 units
16	received 400 units @ Sh. 7 each
20	issued 300 units
24	received 400 units @ Sh. 7 each
30	issued 200 units

Required:

Prepare a stores ledger card and show the value of closing stock on 30 November 2007 under the following

- | | |
|----------------------------|------------------|
| i) FIFO method | (5 marks) |
| ii) LIFO method | (5 marks) |
| iii) Simple average method | (5 marks) |
- b) Write short notes on the following;
- | | |
|--------------------|------------------|
| i) Cash book | |
| ii) Money market | |
| iii) Treasury bill | (5 marks) |

END