



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## UNIVERSITY EXAMINATIONS 2023/2024

SECOND YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR  
OF SCIENCE IN EDUCATION ARTS AND SECOND YEAR FIRST SEMESTER  
BACHELOR OF COMMERCE

### BFC 3225: INTERMEDIATE ACCOUNTING I

DATE: APRIL 2024

TIME: 2 HOURS

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INSTRUCTIONS: Answer Question ONE and any other TWO questions.

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#### QUESTION ONE (30 MARKS)

- a) Briefly describe the primary qualities of useful accounting information (4marks)
- b) What is a conceptual framework and why is it useful in financial reporting? (6marks)
- c) Explain the following terms
  - i. Carrying value of an asset
  - ii. Goodwill
  - iii. Going concern
  - iv. Impairment Loss
  - v. Capital lease (10marks)
- (d) The following information is extracted from the books of Samaki Bora Sacco Ltd.

|                            | Dec 2016 | Dec 2015 |
|----------------------------|----------|----------|
|                            | Shs.000  | shs.000  |
| <b>Current assets</b>      |          |          |
| Accounts receivable        | 350,000  | 312,000  |
| Stock                      | 356,000  | 320,000  |
| cash and cash equivalents  | 378,400  | 260,000  |
| <b>Current liabilities</b> |          |          |
| Accounts payable           | 128,000  | 174,800  |



|                  |        |        |
|------------------|--------|--------|
| Accrued salary   | 48,000 | 34,000 |
| Accrued interest | 25,800 | 14,000 |
| Dividend payable | 60,000 | 44,000 |

### Additional notes

- i. The net income for the society was shs. 901,400 depreciations for the year was shs. 160,000 already included in the income statement.
- ii. New members joined and contributed shs. 200,000 plus registration fee of shs. 120,000
- iii. The society declared dividend of shs. 44,000 in 2015 and was paid in February 2016, dividend of shs. 60,000 was declared in December 2016 and will be paid in 2017
- iv. A new equipment was purchased for shs. 124,000
- v. Longterm loan of shs. 1000,000 was retired at face amount

### Required

Prepare a cashflow statement for the year ended 31 December 2016 using the indirect method (10marks)

### QUESTION TWO(20MARKS)

- a) Assume the following data for Senkof Ltd. for Year 2002.

Kshs Beginning inventory at cost 500,000

Net purchases 2,000,000 Net sales 3,000,000

The company's normal gross profit rate is 40% of net sales.

- Using the above facts, calculate the estimated ending inventory (6marks)
- (b) Evergreen Ltd receives a 3-year Kshs. 1,000,000 zero interest bearing note, the present value of which is Kshs. 772,180. Calculate the implicit interest rate. (4marks)
- (c) Describe FIVE accounting concepts that underlie the preparation of financial statements (10marks)

### QUESTION THREE (20MARKS)

- (a) Steers Ltd. prepares its financial statements according to IFRS. At the beginning of its 2013 fiscal year, the company purchased a franchise for shs. 1,000,000. The franchise has a 10-year contractual life and no residual value, so amortization in 2013 is shs. 100,000. The company does not use an accumulated amortization account and credits the franchise account directly when amortization is recorded. At the end of the year, Steers Ltd. chooses to revalue the franchise as permitted by *IAS No. 38*. Assuming that the fair value

of the franchise, determined by reference to an active market, at year-end is shs.,1,200,000,

Show accounting entries/journal entries to record the above transactions in the books of Steers Ltd (6marks)

(b) On December 31, 2013, the Nairobi Ltd sold land in exchange for a nine-month, 10% note. The note requires the payment of shs.2,000,000 plus interest on September 30, 2014. The company's financial year-end is December 31. The 10% rate properly reflects the time value of money for this type of note. On March 31, 2014, Nairobi Ltd. discounted the note at the ADC Bank. The Bank's discount rate is 12%.

### Required

- i) Show the accounting entries for the accrual of interest on 31st March 2014 (4marks)
- ii) What would be the value of the bond if held to maturity? (4marks)
- iii) Determine the cash proceeds received on discounting the bond on 31st March, 2014 (6marks)

### QUESTION FOUR(20MARKS)

The Savenest Ltd acquired all of the outstanding common stock of the Paynet Ltd in exchange for shs.90 million in cash. Savenest Ltd assumed all of paynet long-term debt which had a fair value of shs.60 million at date of acquisition. The fair values of all identifiable assets of Paynet are as follows (in millions):

|                                |            |
|--------------------------------|------------|
| Receivables                    | 25         |
| Inventory                      | 35         |
| Property, plant, and equipment | 45         |
| Patent                         | 20         |
| Total                          | <u>125</u> |

### Required

- (a) Determine the amount of goodwill on acquisition (4marks)
- (b) Show accounting / journal entries for the transaction (8marks)
- (c) Distinguish the following pairs of terms

- i. Copy right and a patent
  - ii. Depreciation and amortization
- (8marks)

**QUESTION FIVE(20MARKS)**

- (a) Describe the accounting process for a finance lease in the books of the lessor and lessee  
(12 marks)
- (b) Describe the criteria for determining a finance/capital lease  
(8marks)

