

## BUST 211

### BUST 211: INTERMEDIATE ACCOUNTING

TIME: 2 HOURS

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

#### QUESTION ONE (25 MARKS)

- (a) Explain briefly the objectives of financial reporting [5 marks]
- (b) Highlight the objectives of stock taking. [4 marks]
- (c) Explain the treatment of goodwill in the books of accounts. Give various examples of intangible assets and briefly [8 marks]
- (d) Define the term deferred tax, temporary differences and tax base. (8 marks)

#### QUESTION TWO (15 MARKS)

Explain the borrowing costs. What are the general requirements of international accounting standards for borrowing costs and capitalization of borrowing costs?

(20 marks)

#### QUESTION THREE (15 MARKS)

The Fadhili Company began year 2014 with an inventory of 10 million units of its principal product. These units cost Sh.5 each. The following inventory transaction occurred during the first six months of year 2014

| <u>Date</u> | <u>Transactions</u>  |
|-------------|--|
| February 15 | Purchased an account 5 million units at a cost of Sh.6.50 each     |
| March 20    | Sold on account 8 million units are a selling price of Ksh.12 each |
| April 30    | Purchase on account 5 million units at a cost of Sh.7 each         |

On June 30 year 2014, 12 units were on hand.

#### Required

- a) Prepare the required adjusting entry on June 2014, applying each of the following inventory methods. (N/B the company uses a periodic inventory system)
  - i) Average [5 marks]
  - ii) FIFO [5 marks]
  - iii) LIFO [5 marks]
- b) Briefly outline FIVE necessary expenditure items included in inventory cost.

**QUESTION FOUR (15MARKS)**

Kalulu and Kundu are in partnership sharing profit and losses into ratio 4:1 respectively. On January 2004, they admitted Nekesa into the business as a new partner on the following terms;

- a) Goodwill to be valued immediately before nekesa's admission as shs 500,000 and It to be retained in the book of the new partnership.
- b) The new profit and loss sharing ratio after Nekesa's admission to be kalulu 2/5, Kundu 2/5 and Nekesa 1/5
- c) Nekesa to bring Shs 150,000 as a capital.

|                                 |            |            |             |
|---------------------------------|------------|------------|-------------|
| <b>Non Current Assets</b>       | Shs (000)  | Shs (000)  | Shs (000)   |
| Premises                        |            |            | 350         |
| Motor Van                       |            |            | 250         |
| Furniture and Fittings          |            |            | <u>180</u>  |
|                                 |            |            | <u>780</u>  |
| <b>Current Assets</b>           |            |            |             |
| Stock                           |            | 450        |             |
| Debtors                         |            | 250        |             |
| Cash                            |            | <u>9</u>   |             |
|                                 |            | <u>709</u> |             |
| <b>Less current liabilities</b> |            |            |             |
| Creditors                       | 239        |            |             |
| Bank overdraft                  | <u>150</u> | (389)      | <u>320</u>  |
|                                 |            |            | <u>1100</u> |
| <b>Financed by:</b>             |            |            |             |
| Capital accounts                |            |            |             |
| Kalulu                          |            | 700        |             |
| Kundu                           |            | <u>300</u> |             |
|                                 |            |            | <u>1100</u> |

Required;

- a) Show the relevant journal entries to record the goodwill account.
- b) Show the relevant ledger account
- c) Prepare the balance sheet as it would appear immediately after the admission of Nekesa.

**QUESTION FIVE (15 MARKS)**

- a) What do you understand by deferred income taxes? The financial accounting standard Board (FASD) requires more complex accounting for income taxes. Explain. (10 marks)
- b) Define the term temporary difference and tax base. (5 marks)

