(*Knowledge for Development*)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR

SECOND YEAR 1ST SEMESTER
SPECIAL/SUPPLEMENTARY EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF SCIENCE AGRICULTURE ECONOMICS AND RESOURCE MANAGEMENT

COURSE CODE: AEC 212/ECO 201
COURSE TITLE: INTERMEDIATE MICRO ECONOMICS

DATE: 20TH JULY 2022 **TIME:** 2 – 4 PM

INSTRUCTIONS TO CANDIDATES

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

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QUESTION ONE

a) What is an asset? (2 marks)

b) State three basic factors that must be taken into account when calculating the depreciation charge on an asset. (2 marks)

c) Distinguish between "allowance for bad and doubtful debts" and "bad debts" (2 marks)

d) Gravel extractors Ltd. acquired the rights to remove deposits from land owned by a farmer.

The agreement provided for:

i) The payment of royalty of **Kshs 100** per ton of gravel removed.

ii) A minimum payment of **Kshs 500,000** per annum iii) Recoupment rights (for short workings) to be extinguished at the end of year 3.

During the first four years of the contract the following quantities of gravel were removed:

Year	**Tons**
1	3,000
2	5,000
3	6,000
4	7,000
5	6,000

The company's accounting period ends on 31st December and payment to the farmer is made on 1st February the following year.

Required:

A schedule showing royalty payable, short workings, amount payable, short working recouped and those written off. (10 marks)

e) (i) What is the difference between joint venture and partnership? (2 marks)

(ii) Alice and Benter were partners in a joint venture sharing profits and losses in the ratio **3:2** respectively. Alice supplied goods to the value **Kshs 50,000** and incurred expenses amounting to **Kshs 4,000**. Benter supplied goods to the value of **Kshs 40,000** and her expenses amounted to **Kshs 3,000**. Benter sold goods on behalf of the joint venture and realized **Kshs 120,000**.

Required:

Joint venture accounts as they would appear in the books of Alice and Benter together with
the memorandum joint venture account. (12 marks)

QUESTION TWO

a) State three reasons why a company provides for depreciation of its non-current assets. (3 marks)

b) The non-current assets of Jambo Ltd as at 1 May 2013 were as follows:

Non-current asset	**Cost Kshs "000"**	**Accumulated depreciation Kshs "000"**
Land	440,000	-
Plant and equipment	700,320	270,560
Motor vehicles	517,600	168,800
Fixtures and fittings	100,000	25,600

Additional information:

1. The company uses the straight line method of depreciation at the following rates:

Plant and equipment	10% per annum
Motor vehicles	20% per annum
Fixtures and fittings	12.5% per annum

2. It's the policy of the company to provide for a full year's depreciation in the year of purchase of an asset and none in the year of disposal.
3. Land was revalued at **Kshs 780,000,000** during the year.
4. A motor vehicle bought on 1 January 2011 for **Kshs 686,400** was traded in on 1 July 2013 at a value of **Kshs 352,000** in part exchange for a new vehicle costing **Kshs 1,120,000.**
5. On 1 October there was an accident in the factory plant and the plant equipment was written off. The insurance company agreed to pay **85%** of the cost of plant and equipment. As at 31st December they had not done so.
6. Fixtures and fittings include an item which is fully depreciated and no longer in use. Its cost was **Kshs 200,000.**
7. On 1November 2013, the company purchased plant and equipment at a cost of **Kshs 12 million.**

Required:

i) Provision for depreciation on plant and equipment, motor vehicles and furniture and fixtures.
(Separate accounts required). (10 marks)

ii) Non-current asset movement schedule for the year ended 31st Dec.2013. (7marks)

QUESTION THREE

a) State two advantages of using FIFO as a method of inventory valuation. (4 marks)

b) The following information relates to the purchases and sales of product C192 during the month of March 2013

DATE 2013		RECEIPT Quantity	Amount Kshs	DATE 2013		ISSUE Quantity	Amount Kshs
Mar	1	400	30,000	Mar	3	300	31,500
Mar	5	600	48,000	Mar	10	500	55,000
Mar	15	500	45,000	Mar	17	400	46,800
Mar	25	400	34,000	Mar	26	500	60,000
Mar	30	300	28,500	Mar	31	200	23,000

General expenses for the month amounted to Kshs 60,300.

Required:

i) Prepare the stores ledger account using the First-In-First-Out (FIFO) method. (12 marks)

ii) Determine the net profit for the month of March 2013. (4 marks)

QUESTION FOUR

a) Give three reasons why a company would invest in the stocks or share of another company.

(3 marks)

b) The following transactions took place in the books of Chui Ltd.

Jan	1	Purchased **200 6%** debentures of **Kshs100** each of Punda Milia Company (interest payable 31 December and 30 June) at **Kshs 98** ex-interest Purchased **500 Kshs20** ordinary shares of Swala Company for **Kshs 50 each**
Feb	1	Purchased **300 Kshs20** ordinary shares of Swala Company for **Kshs 48 each**
Mar	31	Swala Company paid a six month interim dividend of **10%**
Apr	30	Sold **50** of the debentures at **Kshs 101 ci**
Jun	30	Received debenture interest
Jul	1	Sold **100** of the ordinary shares at **Kshs 50**
Sep	30	Swala Company paid a **5%** final dividend
Dec	31	Received debenture interest.

Required:
The investment accounts in the books of Chui Ltd. It is not the company policy to apportion
dividends. (17 marks)

QUESTION FIVE

MAKUMBI Transport Co. Ltd acquired two new buses on 1 January 2011 for **Kshs 12,915,000** on hire purchase. The cash price being **Kshs 9,000,000** for the two buses. The deal was finances by Wananchi Commercial Bank (WCB) and the terms of hire purchase contract required a deposit of **Kshs 3,000,000** on delivery, followed by three installments on 31st December 2011, 2012 and 2013 of **Kshs 3,300,000, Kshs 3,300,000** and **Kshs 3,315,000** respectively. The true rate of interest was **30%** per annum.

Required:
Prepare the appropriate accounts in the books of MAKUMBI Transport Ltd Co. to record the above transactions. (20 marks)