

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION
AND BACHELOR OF COMMERCE**

**BUST 211/BCOM 211: INTERMEDIATE ACCOUNTING 1/INTERMEDIATE
FINANCIAL ACCOUNTING**

STREAMS: B.ED & BCOM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/11/2021

11.30 A.M – 1.30 P.M.

INSTRUCTIONS:

- Answer Question One and any other two.

QUESTION ONE.

a) The four fundamental accounting principles used in preparation of accounting books of accounts and financial reports are.

- Going concern principle
- Monetary principle
- Arms length principle
- Periodicity principle

Required: Clearly highlight the effect of lack of each principle on financial reporting process by a company.

(8 marks)

b) For accounting information to be useful in decision making it must bear the key qualitative characteristics. However sometimes it is difficult to achieve all the qualitative characteristics when preparing financial reports due to conflict between some of them.

Required. Explain four areas of conflict between the key qualitative characteristics.

(8 marks)

c)The following table shows the accounts receivable data in a particular firm.

Age	Balances	Probability of Collection
1-30 Days	2,900,000	0.98
31-60 Days	1,200,000	0.95
61-90 Days	650,000	0.9
Over 90 days	455,000	0.87

Required: Calculate and show the journal entries for provision for Bad debts.

(14 Marks)

QUESTION TWO.

a) On 1st October 2007, Embu Ltd reported the following transactions in tock that occurred during the month of September.

Date	Unit received	Cost/Units (shs)
10th Oct	600	13
20th Oct	600	17
25th Oct	600	17

Sales were as follows

Date	units	price /Unit (shs)
14th Oct	550	25
21st Oct	600	25
28th Oct	200	25

At the beginning of the month of September, there were 100 units valued at shs 15 each. At the end of the month the units remaining could be sold at shs 17 per unit. Selling cost per unit was estimated at shs 2.50 per unit.

Required: Value of the closing stock using LIFO method and determine the profit for the month of September.

(15 marks)

b) The following transactions were extracted from the books of Soko ltd for the month of January and February 2008.

i. On January 2nd, Soko Ltd assigned accounts receivable of shs 160,000 to Faida Ltd. Faida Ltd remitted 92% of the receivable as less 2% fee cash advance fee.

ii. On January 31st, Soko Ltd collected shs 190,450 and paid this amount to Faida Ltd including interest of 1% per month on the unpaid balance.

iii. On February 28th Soko Ltd collected 151,000 and paid balance owed to Faida plus an interest of 1% on the balance due.

iv. On February 28th, Soko Ltd transferred the balance of assigned receivables to the accounts receivable ledger.

Required: Record the above transactions in the related ledger accounts and close the ledgers at the end of February. **(5 marks)**

QUESTION THREE

The broad principles of accounting for plant assets involve distinguishing between capital and revenue expenditure, measuring the cost of assets, determining how they are should be depreciated and dealing with problems of subsequent measurement and subsequent expenditure.

Required

a) Explain how the initial cost of plant assets should be measured. **(2 marks)**

b) State the three circumstances under which subsequent expenditures on plant assets should be capitalized. **(3 marks)**

c) Wakenya Ltd purchased a plant on 1st January 2000 incurring the following costs.

	shs
Purchase price of the asset	259,000
Stamp duty	7,000
Legal fees	13,000
Site preparation and clearance	18,000
Own labour to install the plant	21,000
Shipping cost	29,000.

The company received a trade discount of 1.5% and a further 2% early settlement discount if payment is done within 30 days. The cost of own labour was estimated as above though no cash was paid since there were full time employees who did the installation. It is estimated that the plant will have a useful life of 10 years. All plants are depreciated on reducing balance basis. The residual value is shs 50,000.

Required

- i. Determine the value of the building and the depreciation expense for the year ended 2001. (8 marks)
- ii. If the building was revalued on 1st January 2005 at shs 200,000. Determine the depreciation charge, the net book value of the asset for the year ended 31st December 2005. (7 marks)

Question Four.

a) XYZ began a research project in October 2013 with the aim of developing a new machine. If successful, the company will manufacture the same machine for customers and use it in production process. During the year, the company invested in Kshs. 3,500,000 in conducting feasibility studies and Kshs. 8,200,000 in developing and testing the prototype.

Required: Explain the correct accounting treatment and show the journal entries. (6 Marks)

b) On December 2014 an item of Factory PPE that originally cost Kshs. 20,000,000 and accumulated depreciation of Kshs, 7,800,000 was sold for Kshs. 16,000,000. It is depreciated at 15% per annum straight line basis. The PPE was sold on 30th September, 2015 when depreciation had not been accounted for.

Required: PPE account (2 Marks)

Provision for depreciation account (5 Mark)

PPE disposal account (4 Marks)

Income statement extract (3 Marks)