CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAMS: BCOM Y2S1 **TIME: 2 HOURS**

DAY/DATE: TUESDAY 04/12/2018 **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS:

- **Attempt question one and any other two.**

QUESTION ONE

(a) The International Accounting Standards Board (IASB) is continuously working with other accounting standard setting bodies in the world so as to have a global application of international Financial Reporting Standards. An important point of focus is a conceptual framework for financial reporting.

Briefly explain any four importance of a conceptual framework for financial reporting.

(6 marks)

(b) At 30 June 2017, ABC Ltd allowance for bad and doubtful debt balance brought forward was Sh. 39,000. As at 30 June 2018 the trade receivables amounted to Sh. 517, 000. On the same day, it was decided to write off bad debts totaling Sh. 37,000 and to later adjust the allowances for bad and doubtful debt to the equivalent of 5% of the net trade receivables based on management's past practice and experience.

Required:

Journal entry to record adjustment of the allowance for receivables and statement of financial position extract showing the amount reported for receivables at 30 June 2018.

(6 marks)

(c) The closing inventory for Tent Limited as at 31st December 2017 amounted to Sh. 4,200,000. Some items included in the closing inventory at a cost of Sh. 160,000 were found to be defective and would be sold after the end of the reporting period for Sh. 104,000 on incurring selling costs estimated to amount to Sh. 14,000.

Required:

The value of the inventory to be reported in the statement of financial position as at 31st December 2017. (6 marks)

(d) Faida Ltd is a public listed company. It has been considering the accounting treatment of its intangible assets and has asked for your opinion on how the matters below should be treated in its financial statements for the year to 31 March 2017.
"In the current accounting period, Faida Ltd has spent Sh. 3 million sending its staff on specialist training courses. Whilst these courses have been expensive, they have led to a marked improvement in production quality and staff now needs less supervision. This in turn has led to an increase in revenue and cost reductions. The company directors believe these benefits will continue for at least three years and wish to treat the training costs as an asset." (6 marks)

(e) The following costs were incurred by Excel limited in acquiring machinery from China and bringing the asset to the location and condition necessary for it to operate.

Item of Cost	Sh. '000'
Purchase price	15,000
Cash and Trade discount	1,500
Import duties	3,500
Cost of dismantling and removing old equipment item to restore the site	500
Value added tax	300
Cost of staff training to operate the equipment	200
Cost of advertising and promotional activities of the new equipment	100
	21,100

Required;
The value to record the item of machinery in the books of Excel limited. (6 marks)

QUESTION TWO

(a) Describe any four circumstances under which subsequent expenditure on property, plant and equipment should be capitalized. (8 marks)

(b) Explain any four qualitative characteristics that enhance the usefulness of accounting information that is relevant and faithfully represented. (4 marks)

(c) On 30 September 2018 the impairment review was carried out and the following amounts were established in respect of a machine:

	Sh.
Carrying amount	850,000
Value in use	760,000
Fair value	850,000
Costs of disposal	30,000

Required:

Journal entry to record impairment loss and the carrying amount of the machine after the impairment review.

QUESTION THREE

(a) Describe an 'asset' and explain the criteria for recognizing assets in the financial statements. (4 marks)

(b) The following balances of non-current assets were extracted from financial records of Excel ltd as at 1 June 2015.

	Cost	Accumulated Depreciation
	Sh	Sh
Land	6,243,000	-
Buildings	6,580,500	657,000
Furniture and fixtures	2,025,000	675,000
Plant and equipment	15,120,000	10,039,000
Motor vehicles	7,930,000	3,307,500

The following information relates to the year ended 31 May 2016

1. Land and buildings were revalued on 1 June 2015 at Sh. 7 million and Sh. 6.5 million respectively.
2. During the period the furniture and fixture acquired amounted to Sh. 3 million while a vehicle that had cost Sh 1.2 million and on which depreciation of Sh. 400,000 had been charged was traded-in for a new vehicle costing Sh. 3 million and the company was required to pay Sh. 2.4 million in cash settlement of the trade in balance.
3. The depreciation policy of Excel ltd was as follows:

Asset	Basis of depreciation	Rate per annum (%)
Land	-	-
Buildings	Straight line	2.5%
Furniture and fixtures	Straight line	10%
Plant and equipment	Reducing balance	12.5%
Motor vehicles	Reducing balance	20%

A full years' depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

Property, plant and equipment movement schedule for the year ended 31 May 2016. (16 marks)

QUESTION FOUR

(a) Using examples differentiate between the following:

(i) Financial assets classified as held-to-maturity and those classified as available for sale. (6 marks)

(ii) Trade receivable or non-trade receivables (4 marks)

(b) The following costs were incurred by a trader on acquiring and subsequent sale of inventory for the year ended 31st December 2017.

	Sh
Purchase price of raw materials	1,000,000
Trade discount received	20,000
Value Added Taxes charged	30,000
Cost of conversion	100,000
Storage costs awaiting further production stage	50,000
Abnormal waste of raw materials	20,000
Selling and distribution costs	50,000
Interest charges for purchasing on deferred settlement terms	50,000

Required:
Inventory measurement values as at 31st December 2017. (10 marks)
