

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION ARTS

BUST 211: INTERMEDIATE FINANCIAL ACCOUNTING

STREAMS: BED (ARTS) Y2S1

TIME: 2 HOURS

DAY/DATE: MONDAY 10/12/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Attempt Question One and any other Two Questions

Question One

- (a) Explain any four qualitative characteristics that enhance the usefulness of accounting information that is relevant and faithfully represented. [6 marks]
- (b) Define an 'asset' and explain the criteria for recognizing assets in the financial statement. [4 marks]
- (c) The following trial balance was extracted from the books of Exide Ltd as at 30 Jun 2018.

	Sh '000'	Sh '000'
Revenue		14,800
Cost of sales	10,200	
Distribution costs	1,080	
Administrative expense	1,460	
Land	10,500	
Building: Cost	8,000	
Acc: Depreciation (1 Jul 2017)		2,130
Plant and Equipment: Cost	12,800	
Acc. Depreciation (1 Jul 2017)		2,480
Ordinary shares sh. 40 each (1 Jul 2017)		10,000
Share premium		3,000
Retained earnings		9,630
10% debentures		2,000
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Additional information:

- (a) All depreciation is treated as an administrative expense and is provided on building and plant and equipment at 2% on straight line and 20% on reducing balance basis respectively.
- (b) The debenture interest for the year is to be accrued as at 30th June 2018
- (c) The estimated corporation tax for the year was estimated at sh. 1 million
- (d) The directors propose to pay the ordinary shareholders a final dividend of sh. 1 per share for the year ended 30 June 2018.

Required:

Statement of comprehensive Income, Statement of financial position and statement of changes in equity for the year ended 30 June 2018. [20 marks]

Question Two

- (a) Briefly describe a liability highlighting its main characteristics. [4 marks]
- (b) Date Ltd sold an equipment that initially cost shs. 480,000 on which there was accumulated depreciation of shs. 250,000. The equipment was sold for sh. 170,000.

Required:

Asset disposal account [6 marks]

- (c) 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
Recoverable Taxes charged	30,000
Cost of conversion	100,000
Normal waste of raw materials	20,000
Selling and distribution costs	50,000
Interest charges for inventories purchased on deferred settlement terms	50,000

Question Three

- (a) Using examples differentiate between capital reserves and revenue reserves. [4 marks]

- (b) SGL Ltd had consumed electricity worth sh. 50,000 by the end of the year 31st December 2017 but the electricity bill had neither been received nor paid for.

Required:

Journal entry to record the transaction in the company's books financial year end.

[4 marks]

- (c) Total Ltd operates in an industry that has a high rate of bad debts. Before the year-end adjustments, Total Ltd's accounts receivable has a debit balance of sh. 536,000 and the allowance for doubtful accounts had a credit balance of sh. 20,000. The year-end balance reported on the statement of financial position for the allowance for doubtful accounts will be based on the aging schedule shown below:

Aging Category	Bad Debt %	Year -end Balance
Less than 16 days	2%	300,000
16 – 30 days	3%	100,000
31 – 45 days	5%	75,000
46 – 60 days	10%	32,000
61 – 75 days	20%	18,000
Over 75 days	40%	11,000

Required:

- (i) The balance for the allowance for doubtful accounts at year end. [8 marks]
- (ii) Journal entry to record bad debt expense for the year [4 marks]

Question Four

- (a) The inventory as at 31st December 2017 amounted to Sh. 780,000. Some items included in the closing inventory at a cost of sh. 40,000 that normally would sell for sh. 50,000 were found to be defective and sh. 15,000 would need to spend on these faulty inventory items in order to enable them to be sold after the end of the reporting period.

Required:

The value of the inventory to be reported in the statement of financial position as at 31st December 2017. [10 marks]

- (b) Mambo Ltd has built a new factory incurring the following costs:

	Sh '000'
Land	1,200
Materials	2,400
Labour	3,000

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Architect's fees	25
Surveyor's fees	15
Site overheads	300
Apportioned administrative overheads	150
Testing of fire alarms	10
Business rates for first year	12
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Required:

What will be the total amount capitalized in respect of the factory? [10 marks]
