CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA/ THARAKA & EMBU

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF CATERING AND HOTEL MANAGEMENT

BCOM 211: INTERMEDIATE ACCOUNTING I

STREAMS: BCOM, BCHM **TIME: 2 HOURS**

DAY/DATE: TUESDAY 03/12/2019 **8.30 AM – 10.30 AM**

INSTRUCTIONS:

Attempt questions 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 aspects of a conceptual framework for financial reporting. [6 marks]

(b) Using an example, describe any three characteristics of current assets. [6 marks]

(c) Tahidi Limited year end is 30 September 2019. The company commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 2019. The expenditure of sh. 400,000 per month was incurred until the project was completed on 30 June 2019 when the drug went into immediate production. The directors became confident of the project's success on 1 March 2019.
Required: The value of intangible asset as at the year end. [6 marks]

(d) XYZ Ltd is calculating the year-end inventories value for inclusion in the financial statement as at 31st December 2019.

The details of the product lines are as follows:

Product	Cost	Estimated selling price	Selling expenses
	Sh '000'	Sh '000'	Sh '000'
A	100	129	25
B	50	60	5
C	75	85	15

Required:
Value to record the total inventories in the financial statements. [6 marks]

(e) A non-current asset (cost sh. 10,000, depreciation sh. 7,500) is given in part exchange for a new asset costing sh. 20,500. The cash paid for full settlement of the transactions was sh. 3,500.
Required: Journal entries to record the transactions. [6 marks]

Question Two

(a) Once property, plant and equipment has been acquired and installed for use, a reporting entity subsequently incurs additional costs.
Describe the accounting treatment for any four different types of expenditures incurred subsequent to acquisition on property, plant and equipment. [8 marks]

(b) On 1st December 2019, Bidii limited acquired a machine under the following terms:

Manufacturers base price	1,050,000
Trade discount (applying to base price only)	20%
Early settlement discount taken (on the payable amount of the base cost only)	5%
Freight charges	30,000
Electrical installation cost	28,000
Staff training in use of machine	40,000
Pre-production testing	22,000
Purchase of a three-year maintenance contract	60,000

Required: The amount recognized under non-current assets as the cost of the machine.
[12 marks]

Question Three

(a) The carrying amount of property, plant and equipment in the statement of the financial position is sh. 3 million as at 31st December 2019. The company has received an offer of sh. 2.7 million interested in buying the plant but an estimated cost of sh. 50,000 will be incurred. The present value of the estimated cash flows from continued use of the plant is sh. 2.6 million.

Required: Journal entry to record impairment loss and the carrying amount of the machine after the impairment review. [10 marks]

(b) At 30 June 2018, ABC Ltd allowance for bad and doubtful debt balance brought forward was sh. 39,000. As at 30 June 2019 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 allowance 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 2019.

[10 marks]

Question Four

(a) Describe an asset and describe the criteria for recognizing assets in the financial statements.

[6 marks]

(b) The following balances of non-current assets were extracted from the financial records of Excel ltd as at 1 June 2018.

	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 2019.

1. Land and buildings were revalued on 1 June 2018 at sh. 7 million and sh. 6.5 million respectively.
2. During the period the furniture and fixtures 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 fittings	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 2019. [14 marks]
