

CHUKA



UNIVERSITY

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**SECOND YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN
ACCOUNTANCY**

DIAC 0114: INTERMEDIATE ACCOUNTING I

STREAMS: DIP. (DIAC) Y2S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 06/08/2019

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.

QUESTION ONE

- (a) Briefly explain the qualitative characteristics of useful accounting information. (8 marks)
- (b) Forom Ltd developed a copyright which had a fair market value of Sh. 400,000. The company incurred the following costs to develop the copyright.

| <u>Item of cost</u> | <u>Sh</u> |
|--|---------------|
| Cost to register the copyright | 10,000 |
| Research and development costs | 20,000 |
| Costs to successfully defend the copyright | <u>50,000</u> |
| | <u>80,000</u> |

Required

The cost at which to record the intangible asset in the company's books. (5 marks)

- (c) Dark Ltd had accounts receivables of Ksh 975,000 as at 31st Dec 2017. Age analysis of the accounts receivable revealed the following:

| <u>Month of sale</u> | <u>Balance, December 31st 2017 (Sh)</u> |
|----------------------|--|
| December | 650,000 |
| November | 176,000 |
| October | 85,000 |
| Prior to October | <u>64,000</u> |
| | <u>975,000</u> |

As at 31st December 2017, allowance for uncollectible accounts had a credit balance of Ksh. 16,000 prior to adjustment. The company uses the percentages of receivables basis for estimating uncollectible accounts. The company's estimate of bad debts is as follows:

| <u>Age of accounts</u> | <u>Estimated percentages uncollectible</u> |
|------------------------|--|
| | Ksh |
| 1-30 days | 2% |
| 31-60 days | 5% |
| 61-90 days | 8% |
| Over 90 days | 10% |

Required

- (i) Determine the total estimated uncollectible accounts. (8 marks)
- (ii) Prepare the adjusting entry at 31st Dec 2017 to record bad debt expense. (3 marks)
- (d) Explain three modes/ways of acquiring PPE in a firm. (6 marks)

QUESTION TWO

- (a) Patel Ltd sold an equipment that initially cost Sh. 480,000 on which there was accumulated depreciation of Sh. 250,000. The equipment was sold for Sh. 170,000.

Required:

- Asset disposal account (6 marks)
- (b) On 1st Jan 2016, ABC Ltd acquired the right to use 1,000 acres of land in Turkana for oil extraction. The lease cost was Sh. 50 million and related exploration costs on the property are Sh. 100 million. Intangible development costs incurred in opening the mine amounted to Sh. 850 million while tangible moveable equipment transferred from another site amounted to Ksh. 750 million. The estimated cost to restore site at the end of extraction is Sh. 20 million.

Required:

- Depreciation base as at 31st Dec 2016. (10 marks)
- (c) Explain four measures for controlling cash receipts and disbursement. (4 marks)

QUESTION THREE

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

| Item of cost | Sh |
|---------------------------------|-----------|
| Purchase price of raw materials | 1,000,000 |
| Trade discount received | 20,000 |
| Recoverable taxed charged | 30,000 |
| Cost of conversion | 100,000 |
| Normal wastage of raw materials | 20,000 |
| Selling and distribution costs | 50,000 |

Required:

Inventory measurement value as at 31st Dec 2017. (9 marks)

- (b) Define an ‘asset’ and explain the criteria for recognizing assets in the financial statement. (4 marks)

- (c) The inventory as at 31st Dec 2013 amounted to Sh. 870,000. Some items included in the closing inventory had 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 be spend on these fault inventory Items in order to enable them to be sold at the end of the reporting period.

Required:

The value of the inventory to be reported in the statement of financial position as at 31st Dec 2013. (7 marks)

QUESTION FOUR

- (a) Differentiate between direct write-off and allowance method of recognizing bad debt expense. (5 marks)
- (b) The following balances of non-current assets were extracted from financial records of sisi Ltd as at 1st Jan 2015.

| <u>Asset</u> | <u>Cost (millions)</u> | <u>Acc. Dep. (m)</u> | <u>Expected useful life</u> |
|---------------------|------------------------|----------------------|-----------------------------|
| Freehold land | 120 | - | - |
| Factory building | 300 | 60 | 50 years |
| Plant and machinery | 950 | 730 | 10 years |

Additional information

- (i) The freehold land and building were revalued by a professional valuer on 5th January 2015 at Sh. 800,000,000 and Sh. 480,000,000 respectively.

(ii) The following assets were acquired on 1st July 2015

| Asset | (Sh. Million) | Useful life |
|---------------------|---------------|-------------|
| Plant and machinery | 200 | |
| Computer | 16 | 4 years |

(iii) Depreciation is provided in full in the year of acquisition.

Required:

PPE movement schedule for the year ended 31st Dec 2015.

(15 marks)
