

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF BACHELOR  
OF EDUCATION ARTS

BUST 211: INTERMEDIATE FINANCIAL ACCOUNTING

STREAMS: BED (ARTS) Y2S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 11/12/2019

8.30 A.M. – 10.30 A.M.

**INSTRUCTIONS: Answer question ONE and any other TWO questions**

QUESTION ONE

- (a) An important requirement of the IASB's framework for the preparation of financial statements, is that in order to be reliable an entity's financial statements should represent faithfully the transactions and events that it has undertaken

**Required:**

Explain what is meant by faithful representation and how it enhances reliability [5 marks]

- (b) The following trial balance was extracted from the books of XYZ ltd as at 31<sup>st</sup> Dec 2017

	Sh. '000'	Sh. '000'
Revenue		29,600
Cost of sales	20400	
Distribution cost	2160	
Administrative expenses	2920	
Land	21000	
Building : Cost	16000	
Acc: depreciation (1 Jan 2017)		4260
Plant & equipment: cost	25600	
Acc: depreciation (1 Jan 2017)		4,960
Ordinary shares sh. 40 each (1 Jan 2017)		20,000
Share premium		6,000
Retained earnings		19,260
10% debentures		4,000
	<u>88,080</u>	<u>88,080</u>

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### Additional information:

- 1) The debenture interest for the year is to be accrued as at 31<sup>st</sup> Dec 2017
- 2) All depreciation is treated as an administrative expenses and is provided on building and plant and equipment at 2% on straight line and 20% on reducing balance basis respectively
- 3) The estimated corporation tax for the year was estimated at sh. 2 million
- 4) The directors propose to pay the ordinary shareholder a final dividend of sh. 1 per share for the year ended 31<sup>st</sup> Dec 2017

### Required:

Statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 31<sup>st</sup> Dec 2017 [20 marks]

- (c) Describe the characteristics by which intangible assets may be classified [5 marks]

### QUESTION TWO

- (a) The following information was extracted from the books of JS traders
- (i) Sold goods for sh. 18,000, 2/10 net 60
  - (ii) 60% of the receivables was collected within the 10 days discount period
  - (iii) 35% was collected within the discount period
  - (iv) 5% past due

### Required:

Pass the necessary normal entries to record the transactions [5 marks]

- (b) Trevor p/c uses the balance sheet approach to estimate uncollectible account expenses. At year end an aging of the account receivable produced the following classification

	Sh
Not yet due	333,000
1 – 30 days past due	135,000
31 – 60 days past due	62,500
61 – 90 days past due	14,500
Over 90 days past due	<u>24,000</u>
Total	<u>569,000</u>

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On the basis of past experience, the company estimated the percentage uncollectible for the above age groups are 1%, 4%, 12%, 18% and 45% for group 1, 2, 3, 4 and 5 respectively. The allowance for doubtful accounts before adjustment at 31<sup>st</sup> December showed a credit balance of sh. 8,800

**Required:**

- (a) Compute the estimated amount of uncollectible account based on the above classification of age group [7 marks]
- (b) Prepare the adjusting entry needed to bring the allowance for doubtful account to the proper amount. [4 marks]
- (c) Describe the common cash management and control practices [4 marks]

### QUESTION THREE

- (a) Briefly describe a liability highlighting its main characteristics [4 marks]
- (b) Bidco ltd sold a motor vehicle that initially cost sh. 520,000 on which there was an accumulated depreciation of sh. 270,000. The motor vehicle was sold for sh. 190,000

**Required:**

Asset disposal account [6 marks]

- (c) The following information was obtained from the books of SISI ltd concerning acquisition & subsequent sale of inventory for the year ended 31<sup>st</sup> Dec 2018

Item of cost	Sh. '000'
Purchase price of raw materials	2,500
Trade discount received	35
Non-recoverable taxes charged	70
Cost of conversion	255
Abnormal wastage of raw materials	45
Selling & distribution cost	82
Interest charges for inventories purchased on defined settlement terms	95

**Required:**

- Inventory measurement value as at 31<sup>st</sup> Dec 2018 [6 marks]
- (d) Distinguish between product cost and period cost [4 marks]

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### QUESTION FOUR

- (a) The following information relates to ABC Ltd concerning the acquisition and use of 3,000 acres of land for oil extraction

	Sh. 'millions'
Lease cost	125
Related exploration cost	325
Mine opening cost: Intangible development cost	925
Tangible development cost	725
Cost to restore the site	50

**Required:**

Depletion base [6 marks]

- (b) Dengo Ltd inventory as at 31<sup>st</sup> Dec 2016 amounted to sh. 1,000,500. Some items included in the closing inventory at a cost of sh. 95,000 that normally would sell for sh. 125,000 were found to be defective and sh. 29,000 would need to be spend on these faulty inventories in order to enable them to be sold after end of reporting period

**Required:**

The value of the inventory to be reported in the statement of financial position as at 31<sup>st</sup> Dec 2016 [8 marks]

- (c) Explain the three main types of inventory found in a typical organization [6 marks]
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