CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 211: INTERMEDIATE ACCOUNTING 1

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

DAY/DATE: MONDAY 4/12/2017 **8.30 A.M – 10.30 A.M**

INSTRUCTIONS:

- **Answer question one and any other two questions**

1. (a) The IASB's conceptual framework for financial reporting identifies qualitative characteristics of financial statements.

Required :

Briefly explain the fundamental qualitative characteristics. [4marks]

(b) An item meets the definition of an element in accordance with the conceptual framework for financial reporting.

Required :

The criteria must be met for an item to be recognized in the financial statement. [4marks]

(c) The inventory as at 31st December 2017 amounted to ksh 780,000. Some items included in the closing inventory at a cost of ksh 40,000 that normally would sell for ksh 50,000 were found to be defective and ksh 15,000 would need to be spent on these faulty 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. [6marks]

(d) On 1st Jan 2016, ABC ltd acquired the right to use 1,000 acres of land in Turkana for oil extraction . The leases cost was ksh 50 milion and the related exploration costs on the property are ksh 100 million. In tangible development costs incurred in opening the mine amounted to ksh 850 million while tangible movable equipment transferred from another site amounted to ksh 750 million. The estimated cost restore site at the end of extraction is 20 million.

Required;

Depletion base as at 31st December 2016. [6marks]

(e) Better ltd purchased a motor vehicle van in Jan 2015 for ksh 2 million . The policy of the company is to depreciate motor vehicle at a rate of 25% using reducing balance method depreciation is charged both in the year of acquisition and disposal. The motor vehicle was sold on 31st December 2017 at a cash price of 600,000.

Required :

Motor vehicle disposal account in 2017. [5marks]

(f) At 30 June 2016 a company's allowance for receivables was ksh 39,000. At 30 June 2017 trade receivables totaled ksh 517,000. It was decided to write off debts totaling ksh 37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.

Required :

Statement of financial position extra showing the amount reported for receivables at 30 June 2017. [5marks]

2. (a) The following balances of non-current assets were extracted from the financial records of excel ltd as at 1 June 2015.

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

The following information relates to the ended 31 may 2016.

1. Land and buildings were revalued on 1 June 2015 at ksh 7 million and ksh 6.5 million respectively.
2. During the period the furniture and fixtures acquired amounted to ksh 3million while a vehicle that had cost ksh 1.2 million and on which depreciation of ksh 400,000 had been charged was traded in for a new vehicle costing ksh 3 million and the company was required to pay ksh 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 year's 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. [14marks]

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

Purchase price of raw materials	1,000,000
Trade discount received	20,000
Non recoverable taxes charged	30,000
Cost of conversion	100,000
Abnormal waste of wasted raw materials	20,000
Selling and distribution costs	50,000
Interest charges for inventories purchased on deferred settlement terms	50,000

Required :

Inventory measures value as at 31st December 2017. [6marks]

3.(a) Using examples, distinguish between tangible assets and intangible assets. [4marks]

(b) Prosperity ltd was incorporated on 1 January 2017. At 31 December 2017 the following costs had been incurred:

Item of cost	Ksh
1.legal fees incurred in establishing the entity	80,000
2.customer lists purchased from a company that has gone out of business.	100,000
3.Good will created by the company	80,000
4.patents purchased for valued consideration	70,000
5.costs incurred by the company in developing patents	60,000

Required :

The cost of intangible assets to be recognized in the statement of financial position. [8marks]

(c) Describe the accounting of cost subsequent to acquisition of an item of property, plant and equipment. [8marks]

4.. (a) Discuss the conceptual issues involved in the definition of an asset that may be applied in determining whether development expenditure should be treated as an expense or an asset. [4marks]

(b) The following information relates to two assets held by a company:

Asset	A	B
	Ksh	Ksh
Carrying amount	100,000	40,000
Fair value less costs of disposal	80,000	35,000
Value in use	90,000	30,000

Required :

Impairment loss for each asset. [4marks]

(c) Forum limited had accounts receivable of ksh 975,000 as at 31st December 2017. Age analysis of the accounts receivables revealed the following:

Months o sale	Balance, December 31st 2017
	Ksh
December	650,000
November	176,000
October	85,000
Prior to October	64,000
	975,000
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As at 31st December 2017, Allowance for uncollectible accounts had credit balance of ksh 16,000 prior to adjustment. The company uses the percentage of receivables basis for estimating uncollectible accounts . The company's estimate of bad debts is as follows:

Age of accounts	**Estimated percentage uncollectible**
1-30 days	2%
31 – 60 days	5%
61 – 90 days	8%
Over 90 days	10%

Required :

(i) Determine the total estimated uncollectible accounts. [6marks]

(ii) Prepare the adjusting entry at December 31st 2017 to record bad debts expense. [2marks]

(d) Differentiate between financial assets classified as held to maturity and those classified as held for trading. [4marks]
