

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATIONS FOR THE AWARD OF DEGREE OF BACHELOR
OF PURCHASING AND LOGISTICS MANAGEMENT

BPLM 271: INTERMEDIATE ACCOUNTING I

STREAMS: BPLM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/8/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (a) Identify and define the fundamental and enhancing qualitative characteristics of financial reporting information [10 marks]
- (b) Dennis company's allowance for doubtful accounts, showed a credit balance of kshs. 9,500 on January 1, 2014. During the year, the company wrote off kshs. 13, 200 of uncollectible accounts, and reinstated kshs. 15,000 of previously written off accounts. The Dec 31, 2014 balance of accounts receivables is 197, 500 and 6% of outstanding accounts receivable are assumed to be uncollectible. The balances in the years 2015 and 2016 of account receivables were kshs. 200,000 and 151,000 respectively. The allowance rate remained unchanged.
- (i) Baddebts expense, provision for Baddebts and Baddebts recovered account for three years [6 marks]
- (ii) Profit and losses extracts for three years [4 marks]

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- (c) The accountant of ABC Ltd has resigned suddenly in October. The newly employed accountant found that the records on the bank statement for October differed from the records in the cash book. On 31 October 2017, the bank balance in cash book was kshs 629,000. Here are some findings after investigation:
- (i) A cheque dated on August with value kshs. 100,000 from customer Mr. Kori was found inside the drawer, but has already recorded in the cash book
 - (ii) On the bank statement of October, there was a record of cash withdrawal for kshs. 10,000 but on the cash book, the amount is recorded as kshs. 1,000 and the actual cash balance is also kshs. 1,000. After the confirmation from the bank, the accountant has indeed withdrawn kshs.10,000 that day
 - (iii) A cheque kshs. 50,000 given to supplier Mr. Lee has been rejected, the reason was incorrect payee name
 - (iv) A cheque kshs. 30,000 given to supplier Mr. Ho has not yet been presented

Required:

- (a) Adjust the cash book of A ltd (only show bank column) [4 marks]
- (b) Prepare the bank reconciliation statement for 31 October 2017, starting from the adjusted cash book balance [4 marks]

QUESTION TWO

- (a) Describe three ways of disposing property plant and equipment [6 marks]
- (b) The balances of Ramton Developers ltd for land, buildings, vehicles and computers were kshs. 2, 000, 000; 5,000,000; 1,000,000 and 500,000. During the current year, ramtons development disposed of plant assets in the following transactions

Feb. 10 office equipment costing kshs 260,000 was given to a scrap dealer at no charge. At the date of disposal, accumulated depreciation on the office equipment amounted to kshs. 250,800

April 1 Ramton sold land and a building to Claypool associates for kshs. 9,000,000, receiving kshs. 1,000,000 cash and 5 year, 9% note receivable for the remaining balance. Ramton records showed the following amounts: Land, 5,000,000; Building, kshs 5,500,000; Accumulated Depreciation: Building (at the date of disposal) Kshs. 2,500,000

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Aug. 15 Ramton traded in an old truck for a new one. The old truck had cost kshs. 2,600,000, and its accumulated depreciation amounted to kshs 1,800, 000. The list price of the new truck was kshs 2,900,000, but Ramton received a kshs. 100,000 trade in allowance for the old truck and paid only 1,900,000 in cash. Ramton includes trucks in its vehicles account.

Oct 1 Ramton traded in its old computer system as part of the purchase of a new system. The old system had cost kshs 15,000 and its accumulated depreciation amounted to kshs 11,000. The new computers list price was kshs 8,000. Ramirez accepted a trade in allowance of kshs. 500 for the old computer system, paying kshs 1,500 down in cash and issuing a one year, 8% note payable for the kshs 6,000 balance owed.

Required:

- (i) Prepare accounts to record each of the disposal transactions. Assume that depreciation expense of each asset has been recorded up to the date of disposal [10 marks]
- (ii) Determine the new values for the PPE [4 marks]

QUESTION THREE

- (a) Explain classification of receivables [4 marks]
- (b) A business started on 1 April 2014 and its financial year end 31 March 2014. The following table shows the balance of debtors and during the year.

Age of debt	Value in Kshs. "000"	Percentage collectible
0 – 90 days	7,000	99
91 – 180 days	8,000	97
181 – 360 days	6,000	94
Over 360 days	7,000	89

Required:

- Determine the provision for bad debts and show the journal entry to the made [6 marks]
- (b) Raji ltd is trying to determine its ending inventory in accordance with generally accepted Accounting principles. Raji has chosen to use FIFO as the cost basic for the inventory

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At the end of the year, the ending inventory under FIFO was kshs. 64,000,000 in total for 8,000,000 bags of stock

The following information is also available regarding each individual bag of Skittles:

Sales price: Kshs. 2 per bag

Profit margin: 60% of sales price

Replacement cost: ksh. 6 per bag is the most current purchase price

Required:

- (i) Determine the ending inventory in accordance with generally accepted accounting principles. Show all calculations [7 marks]
- (ii) Explain the concept behind your choice [3 marks]

QUESTION FOUR

- (a) Critically evaluate importance of the five fundamental assumption in the accounting practice [5 marks]
- (b) Given the following data of expenditure incurred by a Telecom company, determine the journal entries on intangible

	Kshs
R & D salaries and wages	10,000,000
R & D supplies consumed during 2000	3,000,000
Purchase of R & D equipment	5,000,000
Patent filing and legal costs	100,000
Payments to others for services performed in connection with R & D activities	<u>1,200,000</u>
Total	<u>19,300,000</u>

- (c) Explain the recognition, measurement and reporting of good will in accounting books [9 marks]
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