

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF

BUST 211/BBAM 211: INTERMEDIATE FINANCIAL ACCOUNTING

BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAMS:

TIME: 2 HOURS

DAY/DATE: MONDAY 23/07/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- **Attempt questions one and any other two.**

QUESTION ONE

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

	Sh.
Purchase price of raw materials	1,000,000
Cost of conservation	100,000
Normal waste of wasted raw materials	20,000
Selling and distribution costs	50,000
Interest charges for inventories purchased on deferred settlement terms	50,000
Trade discount received	20,000
Recoverable taxes charged	30,000

Required:

- Inventory measurement value as at 31st December 2017. (6 marks)
- (b) Using examples, distinguish between purchased intangible assets and internally-created intangibles. (4 marks)

- (c) At 30 June 2017 a company's allowance for trade receivables was Sh. 39,000. As at 30 June 2018 the trade receivables totalled Sh. 517,000. It was decided to write off bad debts totalling Sh. 37,000 and to later adjust the allowance for receivables to the equivalent of 5% of the adjusted trade receivables based on management's past practice and experience.

Required Statement of financial position extract showing the amount reported for trade receivables at 30 June 2018. (5 marks)

- (d) Real Ltd began construction of a new building on 1 January 2017. The following costs were incurred on the getting the asset to location and condition during the construction:

	Sh. '000'
Freehold land acquisition costs	4,500
Materials	7,800
Direct labour costs	11,200
Legal fees	2,400
General overheads	940
Architect fees	620
Site preparation	1,650

Required

Calculate the amount to be included as property, plant and equipment for the year ended 31 December 2017. (6 marks)

- (e) Describe an 'asset' and explain the criteria for recognizing an asset as an element in the financial statements. (6 marks)
- (f) Using examples, distinguish between trade receivable and non-trade receivables. (4 marks)

QUESTION TWO

- (a) Bell Limited had accounts receivable of Ksh. 975,000 as at 31st December 2017. Age analysis of the accounts receivables revealed the following:

Months of sale	Balance, December 31 st 2017
	Ksh
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 has a 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. (8 marks)
 - (ii) Prepare the adjusting entry at December 31st 2017 to record bad debts expense. (2 marks)
- (b) Excel Ltd purchased a motor vehicle van in Jan 2015 for Sh. 2 million. The policy of the company is to depreciate motor vehicle at a rate of 25% using reducing balance method. The motor vehicle was sold on 31st December 2017 at a cash price of Sh. 600,000. A full year's depreciation is provided both year of acquisition and disposal.

Required:

- (i) Entries to record the sale of the motor vehicle. (6 marks)
- (ii) Motor vehicle disposal account in 2017. (4 marks)

QUESTION THREE

- (a) The following balances of non-current assets were extracted from the financial records of Faida Ltd as at 1 June 2017.

	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 2018

1. Land and buildings were revalued on 1 June 2017 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 sold.
3. The depreciation policy of Faida 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 years' depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

- (a) Property, plant and equipment movement schedule for the year ended 31 May 2018. (16 marks)
- (b) Using examples, distinguish between tangible assets and intangible assets. (4 marks)

QUESTION FOUR

- (a) Briefly explain the qualitative characteristics of useful accounting information. (4 marks)
- (b) Differentiate between the direct write-off and the allowance method of recognizing bad debt expense. (6 marks)
- (c) SGL Ltd was incorporated on 1 January 2017. At 31 December 2017 the following costs had been incurred:

Item of cost	Sh
1. Legal fees incurred in establishing	80,000
2. Customer lists purchased from a company that has gone out of business	100,000
3. Goodwill created internally by the company	80,000
4. Patents purchased for valuable 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. (10 marks)
