

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
THARAKA CAMPUS**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAM: Y2S1

TIME: 2 HOURS

DAY/DATE: FRIDAY 10/08/2018

11.30 A.M – 1.30 P.M

INSTRUCTION:

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

QUESTION ONE (30 marks)

- (a) Explain the importance of conceptual framework of accounting (4marks)
- (b) Using examples, distinguish between notes receivable and accounts receivable. (4marks)
- (c) ABC Ltd develop a copyright. The copyright had a fair market value of sh.500,000 .The company incurred the following cost to acquire the copyright.

Item of cost	sh.
cost to register the copyright	20,000
Research and development cost	30,000
cost to successfully defend the copyright	<u>100,00</u>
	<u>0</u>
	<u>150,00</u>
	<u>0</u>

Required

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

- (d) The following costs were incurred by Twentele enterprise on acquiring and subsequent sale of inventory for the year ended 31st Dec 2016

purchase price of raw materials	sh.
	2,000,00
	0

trade discount received	40,000
Recoverable tax charged	60,000
cost of conversion	200,000
Normal wastage of raw material	40,000
selling and distribution costs	100,000
Interest charges for inventories purchased on deferred settlement terms	100,000

Required

Inventory measurement value as at 31st Dec 2016 (7marks)

(e) Briefly explain the qualitative characteristics of the useful accounting information (4marks)

(f) On 1st Jan 2015 Kwetu Ltd acquired the right to use 500 acres of land in Turkana for its extraction. The lease cost was sh 50,000,000 and related exploration cost on the property are sh.100,000,000 . Intangible development cost incurred in opening the mine amounted to sh. 850,000,000 while tangible moveable equipment transferred from another site amounted to sh. 700,000,000 .The estimated cost to restore site at the end of extraction is sh 30,000,000.

Required

Depletion base as at 31st December 2015 (6 marks)

QUESTION TWO (20 marks)

- (a) Using examples distinguish between intangible asset and tangible assets (4marks)
- (b) Bidii Ltd extracted the following information from its records, plant and equipment as at 1/4/2016 including the estimated useful life of the assets and the dates of acquisition.

ASSET	COST	ACCUMULATED	Expected
	million	Depreciation	useful
	s	(millions)	life
freehold land	80	—	—
factory building	150	30	50 yrs.
plant & machinery	575	465	10yrs

Additional information

The freehold land and building were revalued by a professional valuer on 2nd April at sh 500 million and 240 million respectively. The following assets were acquired on 1st October 2015

ASSETS	Sh(MILLIONS)
Plant & machinery	200
computers	20

The useful life of computers is 5 years
 Depreciation is provided in full in the year of acquisition

Required Prepare, plant and equipment (PPE) movement schedule for the year ended 31st March 2016 (16marks)

QUESTION THREE (20MKS)

- (a) Explain the criteria for recognizing an asset as an element in the financial statements . (5marks)
- (b) Mavitu ltd acquired an equipment and issued 200,000 ordinary share with a par value of sh. 15 in lieu of the equipment payment settlement. The company share are actively traded at the local securities market and are currently trading at a market price of sh. 20 per share.

Required
 Journal entry to record acquisition of the asset in the company's books (5marks)

- (c) Real ltd had accounts receivable of 975,000 as at 31st Dec 2016 .Age analysis of the accounts receivable revealed the following :

month of sale	Receivable account balance , December 31st 2016
December	650,000
November	176,000
October	85,000
prior to October	<u>64,000</u>
total Account receivable	<u>975,000</u>

As at 31st Dec2016 allowance for uncollectible account had a credit balance of ksh. 16,000 prior to adjustment. The company uses the percentage of receivable basis for estimating uncollectible account.

The company's estimate of bad debt is as follows

Age of accounts	estimated percentage uncollectible
1-30days	2%
31-60 days	5%

61-90 days	8%
over 90 days	10%

Required:

- (I) Determine the total estimated uncollectible amount (8marks)
- (II) Prepare the adjusting entry at 31st Dec 2016 to record bad debt expense (2marks)

QUESTION FOUR(20 marks)

- (a) The inventory as at 31stDec 2015 amounted to sh. 880,000. Some items included in the closing inventory at a cost of sh. 50,000 that normally would sell for sh.60,000 were found to be defective and sh. 25,000 would need to be spend on these faulty inventory 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 Dec 2015 (5mks)

- (b) Patel ltd purchased a plant and machinery in January 2016 for sh. 2 million. The policy of the company is to depreciate plant and machinery at a rate of 25 % using reducing balance method. The plant & machinery was sold 31stDec 2016 at cash price of sh. 600,000. A full year depreciation is provided both year of acquisition and disposal.

Required

- (I) Entries to record the sale of the plant & machinery (6marks)
 - (II) Plant and machinery disposal A/C in 2016 (4marks)
 - (c) State any 5 reasons for the difference between the cash book balance and bank statement balance. (5marks)
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