CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 211: INTERMEDIATE ACCOUNTING I

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 11/4/2018 **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS: ATTEMPT QUESTIONS ONE AND ANY OTHER TWO

QUESTION ONE

(a) Briefly explain the qualitative characteristics of the useful accounting information.

[4 marks]

(b) Forum ltd developed a copyright. The copyright had a fair market value of sh 400,000. The company incurred the following costs to acquire the copyright.

Item of cost	Sh.
Costs to register the copyright	10,000
Research and development costs	20,000
Costs to successfully defend the copyright	50,000
	80,000

Required:

The cost at which to record the intangible assets in the company's books. [5 marks]

(c) An item meets the definition of an element in accordance withteh Conceptual Framework for financial reporting.

Required:

The criteria must that be met for an item to be recognized in the financial statement.

[4 marks]

(d) Real ltd acquire an officeequipment and issued 100,000 ordinary shares with a par value of sh. 10 in lieu of the office payment settlement. The company shares are actively traded at the local securities market and are currently trading at a market price of is sh. 15.

Required:

Journal entry to record acquisition of the asset in the company's book. [5 marks]

(e) Bright 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 31st 2017
	Ksh.
December	650,000
November	176,000
October	85,000
Prior to October	64,000
	975,000

As at 31st December 2017, allowance for uncollectible accounts had 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
	Ksh.
1-30 days	2%
31-60 days	5%
61-90 days	8%
Over 90 days	10%

Required:

(i) Determine the total estimated uncollectible accounts. [5 marks]

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

(f) The inventory as at 31st December 2017 amounted to sh. 780,000. Some items included in the closing inventory at a cost of sh. 40,000 that normally would sell for sh. 50,000 were found to be defective and sh. 15,000 would need to 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 December 2017. [5 marks]

QUESTION TWO

(a) The following balances of non-current assets were extracted from the financial records of Bora 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 Bora 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:

Property, plant and equipment movement schedule for the year ended 31 May 2018.

[14 marks]

(b) 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
Trade discount received	20,000
Recoverable taxed charged	30,000
Cost of conversion	100,000
Normal wastage of raw materials	20,000
Selling and distribution costs	50,000
Interest charges for inventories purchased on deferred settlement terms	50,000

Required:

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

QUESTION THREE

(a) There is no single conceptual framework for financial reporting is universally accepted or totally relied upon in accounting practice.

Requirement

Describe the any four reasons absence of a universally accepted conceptual framework.

[6 marks]

(b) Prosperity 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 the entity	80,000
2.	Customer lists purchased from a company that has gone out of business	100,000

3.	Goodwill created by the company	80,000
4.	Patents purchased for value 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.

[8 marks]

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

Required:

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

QUESTION FOUR

(a) Differentiate between the direct write-off and the allowance method of recognizing bad debt expense. [6 marks]

(b) On 1 October 2016, Real ltd began the construction of a new factory. Costs relating to the factory, incurred in the year ended 30 September 2017, are as follows:

	Sh '000'
Purchase of land	10,000
Costs of dismantling existing structures on the site	500
Purchase of materials to construct the factors	6,000
Labour costs **(Note 1)**	1,800
Production overheads directly related to the construction **(note 2)**	1,200
Allocated general administrative overheads	600
Architects' and consultants' fees directly related to the construction	400
Costs of relocating staff who are to work at the new factory	300
Costs relating to the formal opening of the factory	200

Additional information:

Note 1: The factory was constructed in the eight months ended 31 May 2017. It was brought into use on 30 June 2017. The labourcosts are for the nine months to 30 June 2017.

Note 2: The production overheads were incurred in the eight months ended 31 May 2017. They included an abnormal cost of sh. 200,000, caused by the need to rectify damage resulting from a gas leak.

Note 3: The factory has an expected useful economic life of 20 years. At that time the factory will be demolished and the site returned to its original condition. This is a legal obligation that arose on signing the contract to purchase the land. The expected costs of fulfilling this obligation are s. 2 million. An appropriate annual discount rate is 8%.

Required:

The initial carrying value of the factory. [14 marks]
