

CHUKA



UNIVERSITY

SUPPLEMENTARY/ SPECIAL EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF AGRIBUSINESS MANAGEMENT**

AGBM 223: FINANCIAL ACCOUNTING II

STREAMS: AGBM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/02/2021

8.30 AM – 10.30 AM

INSTRUCTIONS:

- i. **Answer question ONE and any other two questions**
- ii. **Do not write on the question paper**

QUESTION ONE

- a) Explain how assets are recognized in the statement of financial position. (4 marks)
- b) In line with IAS 2 briefly describe how inventories are valued at the end of a financial year. (4 marks)
- c) Mkopo ltd accounts receivable as at 31st December 2019 had a balance of sh 1,462,500 and the age analysis of the accounts had the following breakdown

Month of Sale	Balance as at 31st Dec 2019
December	975,000
November	264,000
October	127,500
Prior to October	96,000

The company uses percentage of receivables basis in estimating the uncollectible accounts and at the year end the allowance for doubtful accounts had a credit balance of sh.24, 000.

The bases of estimating uncollectible accounts by the company are as follows;

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

Required:

- i) Determine the total estimated uncollectible accounts as at the year-end (6 marks)
- ii) Journal entry as at the year-end to record bad debts expense (3 marks)
- d) A trainee accountant working for Mr. Juma Mamboleo has prepared the following summary of the cashbook for the month of March 2012.

Cashbook (bank column)			
	Sh.		Sh.
Balance B/F	561,000	Payments	4,189,000
Receipts	<u>3,748,000</u>	Closing balance C/D	<u>120,000</u>
	<u>4,309,000</u>		<u>4,309,000</u>

Whilst checking the cashbook against the bank statement, you find the following discrepancies:

- Bank charges of Sh. 8,000 shown in the bank statement have not been entered in the cashbook.
- The bank had debited a cheque of Sh. 37,000 in error in the account of Juma Mamboleo.
- Cheques totaling Sh. 96,000 have not yet been presented to the bank for payment.
- Dividends received Sh. 42,000 have been credited on the bank statement but not yet recorded in Juma Mamboleos' cashbook
- There were cheques received of Sh. 484,000, which were entered in the cashbook but not credited in the bank statement.
- A cheque for Sh. 17,000 has been returned by the bank marked "refer to the drawer" but no entry relating to this has been made in the books.
- The opening balance in the cashbook should have been Sh. 651,000 and not Sh. 561,000.
- The bank statement shows that there was an overdraft at 30th March 2012 of Sh. 198,000.

Required

- (a) Entries necessary to correct the cashbook. (5Marks)
- (b) A bank reconciliation statement (8 Marks)

QUESTION TWO

- a) Describe the treatment of any three types of expenditures incurred subsequent to acquisition of an item of PPE (6 marks)
- b) Zinduka ltd is a household items dealer based in Meru town. As at the end of an accounting period, its inventory comprised of the following;

Commodity	Cost (sh)	Market value (sh)	Selling expenses (Sh)
P	22000	31000	5000
Q	18000	15000	-
R	50000	65000	14000

S	2000	1300	100
T	81000	100000	-

The value at which the accountant of Zinduka ltd should record the inventory while preparing the statement of financial position (8 marks)

- c) The allowance for bad and doubtful debts in Mulanawe ltd as at 31st December 2018 was sh. 17,000 and the trade receivables were sh.144, 000. Upon review of debts, the management decided to write off debts totaling to sh. 8000 and adjust the allowance for bad and doubtful debts to 10% of the net trade receivables.

Required: Journal entries to record the adjustment of the allowance for receivables (6 marks)

QUESTION THREE

- a) Briefly explain the meaning of the term Current liability (2 marks)
- b) A businessman bought a motor vehicle at a cost of Sh. 200,000 on 1st January 1998. he provides for depreciation on motor vehicles at the rate of 20% per annum on straight-line basis. The businessman prepares his accounts on 31st December every year. You are required to show the following accounts in the books of the businessman for the five years ended 31st December 2002.
- i. Motor vehicles account (8Marks)
 - ii. Provision for depreciation. (6Marks)
 - iii. Profit and loss extracts. (4Marks)

QUESTION FOUR

- a) ABC ltd disclosed the following share capital and reserves in its published financial statements as at 1st January 2019:

	Sh '000'
Ordinary share capital (par value sh. 10)	40,000
Share premium	30,000
10% preference shares (par value sh. 10)	20,000
Revaluation reserve (property, plant and equipment)	40,000
Retained earnings	<u>4350</u>
Total	<u>134,350</u>

The following additional information is provided for the year 2019

1. The profit for the year amounted to sh. 50 million
2. At an annual general meeting held on 31st December 2019, the shareholders approved a bonus issue of one ordinary share for every 10 shares held as at 1st January 2019
3. The directors propose to pay ordinary shareholders a final dividend of sh. 1 per share (bonus shares don't rank)

Required: Statement of changes in equity as at 31st December 2019 (10 marks)

b) The following costs were incurred by Nzioka ltd on acquiring and subsequent sale of inventory for the year ended 31st December 2019

Cost of purchase including transport	500,000
Trade discount received	35,000
Taxes charged (Recoverable)	128,000
Cost of conversion	325,000
Abnormal waste incurred	36,000
Selling and distribution	45,000
Interest charges for inventories purchased on deferred settlement terms	25,600

Required: Inventory measurement value as at 31st December 2019 (6 marks)

- c) Explain how the following are recognized and presented in the financial statements;
- i) Assets (2 marks)
 - ii) Revenue (2 marks)
