**CHUKA UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE**

**BCOM 211: INTERMEDIATE ACCOUNTING 1**

**STREAMS: BCOM Y2S1** **TIME: 2 HOURS**

**DAY/DATE: THURSDAY 08/07/2021** **11.30 A.M – 1.30 P.M**

**INSTRUCTIONS:**
**Answer question one and any other two**
**Do not write on the question paper**

**QUESTION ONE**

(a) Reliability is not preciseness in accounting. Evaluate this statement. [3 marks]

(b) Mwamuko holdings offers to pay ksh 6,000,000 to buy off Abdulafaki ltd whose asset /liabilities book value are listed below;

| | |
|---|---|
| Current assets | ksh 1,050,000 |
| PP & E | ksh 5,000,000 |
| Liabilities | ksh 2,500,000 |
| Equity | ksh 3,550,000 |

The new valuation for PP &E has been determine to be ksh 3,000,000.

**Required:**

(i) Determine the goodwill

(ii) Post the accounting entry [4 marks]

(c) Discuss the primary and secondary qualitative characteristics of accounting information in the light of statement of financial accounting concepts (SFAC) No.2 FASB. [10 marks]

(d) Kings ltd acquired motor vehicle at a cost of ksh 1,000,000. Its accumulated depreciation to date is ksh 400,000. The vehicle expected useful life is 10 years. The motor vehicle is now valued at ksh 750,000.

**Required :**

(i) Motor vehicle account [3 marks]

(ii) Accumulated depreciation account [2 marks]

(iii) Revaluation account [10 marks]

(e) The following records of mali safi traders were provided in the month of May 2020.

May 1 balance of 200 units valued at 6,000/=

May 10 sales of 150 units @ 46

May 20 sold 120 units @ 43

May 31 bought 200 units @33

Required:

(i) Cost of goods sold. [1 mark]

(ii) Profit arising [2 marks]

(iii) Stock value using FIFO method [2 marks]

**QUESTION TWO**

(a) Discuss some of the excess costs incurred by a firm as a result of over investing in PP&E. [6 marks]

(b) The finance manager of Tulivu holdings has encountered difficulties while accounting for non current assets and the related depreciation in the company's draft accounts for the year ended 30th April 2020. He has decided to seek your professional advise and presented the following balances of non current assets as at 1st May 2019.

| | Ksh | Ksh | % |
|---|---|---|---|
| Furniture | 900,000 | 300,000 | 12.5 |
| Truck | 3,525,000 | 1,470,000 | 25 |
| Plants and machinery | 7,387,500 | 4,462,000 | 10 |
| Land | 2,775,000 | - | Nil |
| Buildings | 2,925,000 | 292,500 | 2.5 |

The following additional information was also available:

1. It is the company's policy to write off of the assets using above percentages on cost.
2. Depreciation is fully charged in the year of acquisition and none in the year of disposal.

3. A three year old machine acquired for ksh 187,500 was sold for ksh 15,750
4. It has been decided to adjust and charge depreciation on buildings at 4%.
5. A used delivery truck purchased three years ago for ksh 248,250 was traded in during the year at a value of ksh 157, 500 in part exchange of the new delivery truck costing ksh 450,000.
6. Land, buildings and machinery were acquired for ksh 1,350,000 from a company that went out of business. At the time of acquisition ksh 90,000 was paid to have the assets revalued by a professionally qualified valuer. The revaluation indicated the following market values.

| | Ksh |
|---|---|
| Land | 900,000 |
| Buildings | 600,000 |
| Machinery | 300,000 |

**Required :**

A schedule of movement of non current assets as requested by the finance manager for inclusion in the company's account for the year ended 30 April 2020. [14 marks]

**QUESTION THREE**

(a) Explain the criteria for recognition of asset and liabilities. [5 marks]

(b) On 10 January 2019, Frank received his monthly bank statement for December 2018. The statement showed the following.

| Equity Bank ltd<br>Frank: statement of account | | | | |
|---|---|---|---|---|
| Date | Particulars | Debits | Credits | Balance |
| 2018 | | Ksh | Ksh | Ksh |
| Dec 1 | Balance | | | 1,862,000 |
| Dec 5 | 417864 | 243,000 | | 1,619,000 |
| Dec 5 | Dividend | | 26,000 | 164,500 |
| Dec 5 | Bank: credit bank sammy | | 212,000 | 1,857,000 |
| Dec 8 | 417866 | 174,000 | | 1,683,000 |
| Dec 10 | 417867 | 17,000 | | 1,666,000 |

| | | | | |
|---|---|---|---|---|
| Dec 11 | Sundry credit -Larry | | 185,000 | 1,851,000 |
| Dec 14 | Standing order | 32,000 | | 1,819,000 |
| Dec 20 | 417865 -Simon | 307,000 | | 1,512,000 |
| Dec 20 | Bank: credit bank -Hillary | | 118,000 | 163,000 |
| Dec 21 | 417868 | 95,000 | | 1,535,000 |
| Dec 21 | 416870 | 161,000 | | 1,374,000 |
| Dec 24 | Bank charges | 18,000 | | 135,600 |
| Dec 27 | Bank:Credit bank-Evans | | 47,000 | 1,403,000 |
| Dec 28 | Direct debit | 88,000 | | 1,315,000 |
| Dec 29 | 417873 | 12,000 | | 130,300 |
| Dec 29 | Bank: credit bank – Smith | | 279,000 | 1,582,000 |
| Dec 31 | 417871 | 25,000 | | 1,557,000 |

His cashbook for the corresponding period was as follows.

Cash book

| 2018 | | | Ksh 2018 | | Cheque no. | Ksh |
|---|---|---|---|---|---|---|
| Dec 1 | Balance b/d | 1862000 | Dec 1 | Electricity | 417864 | 243000 |
| Dec 4 | Sammy | 212,000 | Dec 2 | Simon | 417865 | 307000 |
| Dec 9 | Larry | 185000 | Dec | Dan | 417866 | 174000 |
| Dec 19 | Hillary | 118000 | Dec 6 | Jacob | 417867 | 17000 |
| Dec 26 | Evans | 47000 | Dec 10 | Edwin | 417868 | 95,000 |
| Dec 27 | Smith | 279000 | Dec 14 | Oliver | 417869 | 71000 |
| Dec 29 | Owen | 98000 | Dec 16 | Rent | 417870 | 161000 |
| Dec 30 | Washington | 134000 | Dec 20 | Peter | 417871 | 25000 |
| | | | Dec 21 | Philip | 417872 | 37000 |
| | | | Dec 22 | Hamton | 417873 | 12000 |
| | | | Dec 31 | Balance c/d | | 1793000 |
| | | 2,935,000 | | | | 2,935,000 |

**Required:**

(i) Bring the cash book balance of ksh 1,793,000 up to date as at 31 December 2018. [10 marks]

(ii) Draw up a bank reconciliation statement as at 31 December 2018. [5 marks]

**QUESTION FOUR**

(a) Maxwell a sole trader started a new business in Machaka village where he sold second hand clothes. For the year ended 31 December 2020 the following debts were found to be bad due to covid 19 factors, and were written off on the dates shown:

| | | |
|---|---|---|
| 30 April | Hellen Mukira | ksh 21,000 |
| 31 August | Mathew Adams Mukhisa | ksh 6400 |
| 31 October | Janice Kanana | ksh 12,000 |

On 31 December 2020 the schedule of remaining debtors, amounting in total to ksh 68,500 is examined and it is decided to make a provision for doubtful debts of ksh 2,200.

You are required to show:

(i) The bad debts account, and the provision for doubtful debts account of ksh 2,200.

(ii) The charge to the profit and loss account. [4 marks]

(iii) The relevant extracts from the statement of financial position as at 31 December 2020. [5 marks]

(b) A quarry mining company purchased a land to mine building stones at ksh 6,000,000. The cost of land in the price is ksh 2,500,000 with the difference being the estimated value of stones. The development costs on the site incurred were ksh 100,000 and the land is to be rehabilitated at a cost of ksh 600,000. The estimated deposit of stones were 1,000,000 feet . The salvage value of the land after mining is ksh 500,000.

**Required:**

Record the acquisition of natural resource and the depletion for the year considering they extracted 50,000 feet in the first year.

[6 marks]

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