

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF HOTEL MANAGEMENT

BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAMS: BCOM, BCHM

TIME: 2 HOURS

DAY/DATE: TUESDAY 23/03/2021

11.30 A.M – 1.30 P.M

INSTRUCTIONS:

Answer question one and any other two questions

QUESTION ONE

- (a) Using an illustration, describe an asset and explain the criteria for recognizing assets in the financial statements. [6 marks]
- (b) Comparability is an enhancing qualitative characteristic which adds to the usefulness of financial statements. Explain what is meant by the term ‘comparability’ in the financial statements, referring to two types of comparison that users of financial statements may make. [6 marks]
- (c) The following information relates to disposal of machine by an entity.

	Ksh
Cost of the machine	100,000
Selling proceeds	40,000
Loss on machine sale	20,000

Required:

Asset disposal account the accumulated depreciation reversed on disposal. [6 marks]

(d) Relevance and faithful representations are key components of qualitative characteristics of accounting information. Identify and explain the features/attributes of both faithful represented and relevant financial information. [6 marks]

(e) The following aging of accounts receivable was extracted from the books of Hekima limited as 31st December 2020.

	Overall	Less than 30 days	32 days – 60 days	61 days – 90 days	Over 90 days
Debtor					
Ken kariuki	100,000	80,000	-	10,000	10,000
Trend limited	400,000	310,000	40,000	-	50,000
Little limited	120,000	30,000	40,000	20,000	30,000
Wetu limited	600,000	500,000	100,000	-	-
Mark Otieno	160,000	100,000	60,000	-	-
Rita Weru	<u>250,000</u>	<u>200,000</u>	-	<u>50,000</u>	-
Total	<u>1,630,000</u>	<u>1,220,000</u>	<u>240,000</u>	<u>80,000</u>	<u>90,000</u>

The percentage ultimately uncollectible linked to the receivable aging is estimated on historical experience as follows;

	Percentage
Age of account	uncollectable
Less than 30 days	2%
31 to 60 days	3%
61 to 90 days	4%
Over 9 days	5%

Required :

Journal entry to record uncollectable accounts at year end.

[6 marks]

QUESTION TWO

- (a) The closing inventory as at 31st December 2020 amounted to ksh 4,190,000 before allowing for the following adjustments:
- (i) Some items included in the closing inventory at a cost ksh 16,000 were found to be defective and would be sold for ksh 10,400 after incurring ksh 600 as selling costs.
 - (ii) Goods with a sales value of 88,000 were in custody of customers as at 31st December on a sale or return basis. The goods had been sold in the records and the full sales value of ksh 88,000 had been included in the trade receivables. After the end of the reporting period, the goods were returned in good condition. The cost of the goods were ksh 66,000.

Required :

Inventory valuation as at 31st December 2020.

[8 marks]

- (b) Once plant assets are installed and ready for use, a reporting entity subsequently incur additional costs. Describe any four types of expenditures subsequent to acquisition specifying their accounting treatments.

[12 marks]

QUESTION THREE

- (a) In the context of the conceptual framework of financial reporting, briefly explain what an elements is and describe any four elements of financial statements
- (b) The following balances of assets were extracted from the financial records of real ltd as at 31st December 2019.

Asset	Cost	Acc dep
	Ksh '000'	Ksh '000'
Land	35,000	
Plant and machinery	26,250	10,115
Office equipment	5,250	2,555
Motor vehicles	15,750	9,100
Computers	5,000	1,000

The following information relates to the year ended 31st December 2020.

1. Land and computers was professionally revalued on 1st January 2020 at ksh 40 million and ksh 3.5 million respectively.
2. Machinery and motor vehicle were acquired during the year at a cost of 3.5 million and 2.1 million respectively.
3. An item of office equipment was disposed off during the year ended 31st December 2020 for ksh 224,000. The item had a cost ksh 280,000 and had accumulated depreciation of ksh 70 million.
4. The company depreciates the assets using the straight line method at the following rates;

Freehold property	rate per annum
Plant and machinery	20%
Office equipment	15%
Motor vehicles	25%
Computers	5%

A full year's 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 31st December 2020.

[14

marks]

QUESTION FOUR

- (a) Nelly limited, dealer in marketing and publicity services uses the percentage of sales method to estimate the uncollectible account expense. From 2019, the company made the following sales and collections:

Year	sales	Collections
	Ksh	ksh
2019	200,000	150,000
2020	300,000	225,000

Kshs 4,500 and ksh 7,200 were written off 2019 and 2020 respectively.

In the year 2020, ksh 2,200 previously written off in 2019 were recovered. The allowance for uncollectible amounts was estimated to be 6% of uncollected accounts receivable each year.

Required:

Show the necessary journal entries for the two years. [10 marks]

- (b) Andrian structures Metal limited purchased a six acre tract of land with an existing building for ksh 6,000,000. The company plans to raze down the old building and construct a new office building on the site. In addition to the purchase price, the company made the following expenditures at the closing of the purchase price.

Item	ksh
Title insurance	30,000
Commissions	70,000
Property taxes	25,000

Shortly after closing of the purchase, the company paid a contractor ksh 150,000 to tear down the old building and remove from the site. An additional ksh 52,000 was paid to grade the land. The ksh 25,000 in property taxes included ksh 10,000 of delinquent taxes paid by the company on behalf of the seller and ksh 15,000 attributes to the portion of the current fiscal year made after the purchase date.

Required :

What should be the capitalized cost of land? [10 marks]