

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN  
AGRIBUSINESS**

**AGBM 223: FINANCIAL ACCOUNTING II**

**STREAMS: BSC AGBM**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 08/04/2024**

**8.30 A.M – 10.30 A.M.**

**INSTRUCTIONS:**

**Attempt QUESTION ONE and any other TWO.**

**QUESTION ONE**

- (a) Describe the fundamental qualitative characteristics of useful financial information as identified in the Conceptual Framework for Financial Reporting. (6 marks)
- (b) ABC Limited issued one million ordinary shares (par value sh. 1 each) on 1<sup>st</sup> Jan 2017 at an issue price of sh. 1.5 per share.
- Required:  
Entry to record issues of the ordinary shares. (6 marks)
- (c) Using examples, describe what a liability is and distinguish it from shareholders equity. (6 marks)
- (d) On 31<sup>st</sup> December 31, 2022, the statement of financial position of Que Ltd had accounts receivable of Sh. 650,000 and a credit balance in allowance for expected credit losses of Sh. 33,000. During 2023, the following transactions occurred: sales on account sh. 1,550,000; sales returns Sh. 100,000 and collections from customers, Sh. 1,250,000. If the company uses the percentage of receivables basis to estimate bad debts expense and that uncollectible accounts are expected to be 6% of accounts receivable, what is the adjusting entry at December 31, 2023? (6 marks)

- (e) AB Ltd manufactures maize flour. The inventory related costs are shown below:

	Sh.
Raw materials	56,000
Direct labour	40,000
Abnormal wastage	6,000
Transportation of raw materials	10,000
Transportation of finished goods to showroom	1,000
Storage of finished product	18,000
Transport of finished product to customer	250

**Required:**

The value at which inventory is recorded. (6 marks)

**QUESTION TWO**

- (a) An entity bought goods from a manufacturer for Sh. 40,000 on 1<sup>st</sup> April 2023 with 120 days interest-free credit, which are normal business terms in the industry. At the entity's financial year-end (30 June 2023), it had not yet paid the manufacturer.

**Required**

- (i) Journal to record transaction on initial recognition on 1<sup>st</sup> April 2023. (2 marks)
- (ii) Journal to record transaction on subsequent measurement at year end 30<sup>th</sup> June 2023. (4 marks)
- (b) The following share capital and reserves balances were extracted from the books of JBR Ltd.'s as at 1<sup>st</sup> January 2023.

Item	Kes. '000'
Ordinary Share Capital Sh. 1.00	12,000
Share Premium	2,000
Revaluation reserve	4,000
Retained Earnings at 1 Jan 2023	6,000

**Additional information**

- The loss for the year ended 31<sup>st</sup> December 2023 amounted to Sh. 100,000.
- The directors propose to transfer Sh. 50,000 to a general reserve and to pay the ordinary shareholders a final dividend of Sh. 1 per share for the year ended 31<sup>st</sup> December 2023.
- The applicable corporate tax rate is 30%

**Required**

Statement of changes in equity for the year ended 31<sup>st</sup> December 2023. (10 marks)

**QUESTION THREE**

- (a) Describe what inventories are and distinguish property plant and equipment from inventories. (6 marks)
- (b) The following balances of non-current assets were extracted from the financial records of Bora Ltd as at 1 June 2022.

	Cost Sh.	Accumulated Depreciation Sh.
Land	6,243,000	-
Buildings	6,580,500	657,000
Furniture and fixtures	2,025,000	675,000
Equipment and machinery	15,120,000	10,039,000
Motor Vehicles	7,930,000	3,307,500

The following information relates to the year ended 31 May 2023

- 1. Land and buildings were revalued on 1 June 2022 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%
Equipment and machinery	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 2023. (14 marks)

**QUESTION FOUR**

- (a) A company issues 4% interest, Sh. 1,000,000 face value of three-year bonds. The applicable effective interest rate is 5%.
  - (i) What is the interest payment on the bonds each year? (2 marks)
  - (ii) What amount of interest expense on the bonds would be reported in the first two years of issuance, using the effective interest rate method and determine the carrying amount of the bonds at the end of the first years? Hint: Prepare an amortization schedule. (8 marks)

- (b) On 12<sup>th</sup> February 2023, Tayari limited purchased a tract of land as a factory site for Sh. 1,750,000. Additional data are available as follows:

	Sh.
Costs of site preparation	35,000
Architect's fees	42,500
Material Construction costs	420,000
Direct labour costs during construction	375,000
Administration and general overhead costs	250,000
loan borrowed towards construction of factory	500,000
Interest on loan for construction	65,000

**Required:**

Amounts at which to record the cost of land and new factory respectively. (10 marks)

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