

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
AGRIBUSINESS MANAGEMENT

AGBM 223: FINANCIAL ACCOUNTING II

STREAMS: AGBM (ODEL)

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/12/2024

8.30 A.M. – 10.30 A.M.

## INSTRUCTIONS:

- Answer question ONE and any other TWO.

## QUESTION ONE

- a) The following balances of assets were extracted from the financial records of Jackson and Sons Ltd as at 31st December 2022.

| Assets              | Cost Kshs. '000' | Acc depreciation<br>Kshs. '000' |
|---------------------|------------------|---------------------------------|
| Land                | 35,000           |                                 |
| Plant and machinery | 26,250           | 10,115                          |
| Office equipment    | 5,520            | 2,555                           |
| Motor vehicles      | 15,750           | 9,100                           |

|           |       |       |
|-----------|-------|-------|
| Computers | 5,000 | 1,000 |
|-----------|-------|-------|

The following information relates to the year ended 31st December 2023.

1. Land and computers were professionally revalued on 1st January 2023 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 2023 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 2023. (14 marks)

- b) In the context of the conceptual framework of financial reporting, briefly explain what an element is and describe any four elements of financial statements. (8 marks)
- c) Mr. Maina owed XYZ Ltd Kshs 85,600 by close of year 2018 when he declared bankrupt by a court of law. XYZ wrote off the debt in 2019. Maina's financial affairs improved in 2020 and he repaid the debt by cheque.

Required:

Record the debt recovery in the year 2020. (4 marks)

- d) Consistency is an enhancing qualitative characteristic which adds to the usefulness of financial statements. Explain what is meant by the term ‘consistency’ in the financial statements, referring to two types of comparison that users of financial statements may make (4 marks)

**QUESTION TWO**

- a) List four benefits of stock taking for a company. (4 marks)
- b) Mr. Kamau commenced business on 1 January, 2019 with a capital of kshs 500,000. He decided to specialize in single product line called kiwi and by the end of May 2019, his purchases and sales of this product were as follows:

| Dates | Purchases |                  | Sales |                  |
|-------|-----------|------------------|-------|------------------|
|       | Unit      | Unit price (shs) | Unit  | Unit price (shs) |
| Jan   | 300       | 500              | 200   | 700              |
| Feb   | -         | -                | 500   | 720              |
| March | 400       | 600              | 250   | 800              |
| April | 250       | 650              | 300   | 850              |
| May   | 200       | 700              | 200   | 900              |

**Required:**

Compute Kamau’s gross profit for the period where stocks are valued using:

- i) FIFO method (7 marks)
- ii) LIFO method (7 marks)
- c) Briefly explain the meaning of the term Current liability (2 marks)

**QUESTION THREE**

- a) 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 (4 marks)
- b) The broad principles of accounting for plant assets involve distinguishing between capital and revenue expenditure, measuring the cost of assets, determining how they should be depreciated and dealing with problems of subsequent measurement and subsequent expenditure.

**Required:**

- i) Explain how the initial cost of plant assets should be measured. (2 marks)
- ii) State the three circumstances under which subsequent expenditures on plant assets should be capitalized. (3 marks)
- c) Describe the characteristics by which intangible assets may be classified. (5 marks)

**QUESTION FOUR**

- a) Explain the following terms as used in financial accounting
  - i. Going concern concept (2 marks)
  - ii. Materiality concept (2 marks)
  - iii. Prudence concept (2 marks)
  - iv. Matching concept (2 marks)
  - v. Accrual concept (2 marks)

- b) Dante Ltd sold an equipment that initially cost shs. 480,000 on which there was accumulated depreciation of shs. 250,000. The equipment was sold for sh. 170,000.

**Required:**

Asset disposal account (6 marks)

- c) Define an 'asset' and explain the criteria for recognizing assets in the financial statement.

(4 marks)

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