

CHUKA



UNIVERSITY
www.chuka.ac.ke

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF AGRIBUSINESS MANAGEMENT AND AGRICULTURAL ECONOMICS

AGBM 223: FINANCIAL ACCOUNTING II

STREAMS: AGBM (Y2S2)

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/04/2023

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Do not write anything on the question paper

QUESTION ONE

- (a) Bakaki Ltd provides a two year warranty for its new product. It sold 5000 units of the product at Sh. 3000 per unit by the end of the year. From the past experience with a similar product the company estimates that warranty costs will amount to 2% of the sales revenue by the end of the year. The company has paid out sh. 40,000 in relation to the warranty claims.

Required: Journalize the transactions assuming the company applies the accrual basis.

[7 marks]

- (b) Pangani Ltd operates in an industry that has high rate of bad debts. Before the year end adjustments, the balance of the company's accounts receivable was sh. 832,500 and allowance for doubtful accounts had a credit balance of sh. 60,000. The year end balance reported in the statement of financial position for allowance for doubtful accounts will be based on the following aging schedule.

AGBM 223

Days account is outstanding	Amount	Probability of collection
Less than 16 days	450,000	0.95
16-30 days	150,000	0.85
31-45 days	120,000	0.80
46-60 days	60,000	0.75
61-75 days	30,000	0.50
Over 75 days	22,500	0.10

Required:

- (i) The appropriate balance for allowance for doubtful accounts at the year end [8 marks]
- (ii) Show how accounts receivable would be presented in the statement of financial position. [3 marks]
- (c) Briefly explain the criteria for recognizing an asset as an element in the financial statements. [5 marks]
- (d) The following costs were incurred by Zomwa enterprise on acquisition and subsequent sale of inventory for the year ended 31st Dec 2021

Cost item	Sh.
Purchase price of raw materials	1,250,000
Trade discount received	60,250,
Irrecoverable tax charged	40,000
Cost of conversion	215,000
Normal wastage of raw material	20,500
Selling and distribution costs	23,500
Interest charges for inventories purchased on deferred settlement terms	10,500

Required: Inventory measurement value as at 31st Dec 2020 [7 marks]

QUESTION TWO

- (a) The following balances of assets were extracted from the financial records of Mojo Ltd as at 31st December 2018.

	Sh. '000'	Sh. '000'
	Cost	Accumulated depreciation
Land	20,000	Nil
Buildings	18,000	8,000
Tractors	6,000	2,000
Office equipment	1,000	400

The following information relates to the year ended 31st December 2019:

- The company policy is to charge depreciation at the following rates:

Asset	Rate
Land	-
Buildings	10% on cost
Tractor	15% on cost
Office equipment	20% on reducing balance basis

A full year depreciation is provided in the year of acquisition and none in the year of disposal.

- Land was professionally revalued on 1st January 2019 at sh.30 million
- A new building was purchased for sh.5 million
- Imported a new tractor from Tanzania at a cost of sh. 1.5 million

Required: Property, plant and equipment movement schedule for the year ended 31st

December 2019.

[15 marks]

- (b) Breek's inventory as at 31st December 2020 stood at sh. 589,400. Some items included in the closing inventory at a cost of sh. 43,200 that would normally sell for sh. 55,000 were found to be defective and sh. 13,500 would need to be spend on these faulty inventories in order to realize the specified amount.

Required:

The value of the inventory to be reported in the statement of financial position as at 31st

Dec 2020.

[5 marks]

QUESTION THREE

(a) Outline any six control mechanism put in place by firms to reduce cash misappropriation and embezzlement by employees. [6 marks]

(b) Kaka limited raises finance by issuing sh. 10 million 6% two year debenture on 1st January 2020. The debenture will be redeemed at the end of two years. The effective rate of interest in the market is 12%.

Required: Explain how the bond is classified and show the journal entry in the books of Kaka ltd on 1st January 2020 and subsequent measure at the end of the year. [8 marks]

(c) Using illustrations, describe a liability highlighting its main features. [6 marks]

QUESTION FOUR

(a) Tech-bite ltd purchased a motor vehicle at a cost of sh. 4,000,000 on 1st May 2018. The motor vehicle was depreciated over an estimated useful life of 5 years. The company's policy is to provide for depreciation in full in both the year of acquisition and in the year of disposal. Assume the motor vehicle was disposed off on 31st December 2020 for sh. 2,200,000.

Required: Journal entries to record the above transactions and also the Asset Disposal account. [10 marks]

(b) Using an illustration, describe an intangible asset and examine its characteristics. [10 marks]
