

CHUKA



UNIVERSITY

### UNIVERSITY EXAMINATIONS

#### EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION

#### BUST 211: INTERMEDIATE FINANCIAL ACCOUNTING

STREAMS: BUST Y2S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 30/03/2021

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) Explain any four importance of conceptual frame work of accounting. [4 marks]
- (b) Using examples, distinguish between note receivable and accounts receivable. [4 marks]
- (c) Biashara limited developed a copyright with a fair market value of ksh 399,000. The company incurred the following incidental cost to acquire the copyright.

Item of cost	ksh
Cost to register the copyright	22,300
Research and development cost	43,240
Cost of successfully defend the copyright	87,455
	152,995

#### Required :

The cost at which to record the intangible asset in the company's books. [5 marks]

- (d) The following costs were incurred by Maendeleo enterprise in acquiring and subsequent sale of inventory for the year ended 31<sup>st</sup> Dec 2017.

Item of cost	Ksh
Purchase price of raw materials	2,560,250
Trade discount received	40,450
Recoverable tax charged	60,230
Cost of conversion	240,150
Normal wastage of raw material	25,000
Selling and distribution costs	170,370
Interest charges for inventories purchased on deferred settlement terms	22,460

**Required :**

Inventory measurement value as at 31<sup>st</sup> Dec 2017. [7 marks]

(e) Briefly explain four qualitative characteristics of useful accounting information.

[4 marks]

(f) On 1<sup>st</sup> Jan 2015 Global link ltd acquired the right to use 522 acres of land in Sondu for oil extraction. The lease cost was ksh 24,500,000 and related exploration cost on the property amounted to ksh 56,680,400. The intangible development cost incurred in opening the mine was ksh 432,000,000 while tangible moveable equipment transferred from another site amounted to ksh 560,420,000. The estimated cost to restore site at the end of extraction is ksh 34,430,000.

**Required :**

Depletion base as at 31<sup>st</sup> December 2015. [6 marks]

**QUESTION TWO**

(a) Using examples distinguish between product cost and period cost. [4 marks]

(b) The following information was extracted from the property plant and equipment records of Bidii ltd 1/4/2016 including the estimated useful life of the assets and the respective dates of acquisition.

Asset	Cost millions	Accumulated depreciation (millions)	Expected useful life
Freehold land	200	-	-
Factory building	375	75	50 years
Plant & machinery	1437.50	1162.50	10 years

### Additional information

The freehold land and building were revalued by a professional valuer on 3<sup>rd</sup> April at ksh 1,250,000,000 and 600,000,000 respectively. The following assets were acquired on 1<sup>st</sup> October 2015.

ASSETS	ksh (millions)
Plant & machinery	500
Computers	50

The useful life of computers is 5 years

Depreciation is provided in full in the year of acquisition

### Required :

Property, plant and equipment (PPE) movement schedule for the year ended 31<sup>st</sup> March 2016.  
[16 marks]

### QUESTION THREE

- (a) Briefly explain the criteria for recognizing an asset as an element in the financial statements. [5 marks]
- (b) High tech ltd acquired an equipment and issued 24,000 ordinary shares with a par value of ksh 15 in lieu of the equipment purchase settlement. The company's shares are actively traded at the local securities market and are currently trading at ksh 20 per share.

### Required :

Journal entries to record the acquisition of the equipment in the company's books.

[5 marks]

(c) Real ltd had accounts receivable of 1,462,500 as at 31<sup>st</sup> Dec 2016. Age analysis of the accounts receivable revealed the following ;

Month of sale	Receivable account balance Dec 31 <sup>st</sup> 2016
December	975,000
November	264,000
October	127,500
Prior t o October	96,000
Total accounts receivable	1,462,5000

As at 31<sup>st</sup> Dec 2016 allowance for uncollectible account had a credit balance of ksh 24,000 prior to adjustment. The company uses the percentage of receivable basis for estimating uncollectible amount.

The company’s estimate of bad debt is at follows

Age of accounts	Estimated percentage uncollectible
1 -30 days	3%
31 -60 days	7%
61 – 90 days	9%
Over 90days	12%

**Required :**

- (i) Determine the total estimated uncollectible amount. [8 marks]
- (ii) Prepare the adjusting entry as at 31<sup>st</sup> Dec 2016 to record the bad debt expense. [2 marks]

**QUESTION FOUR**

(a) Telaviv’s inventory as at 31<sup>st</sup> December 2015 stood at ksh 580,400. Some items included in the closing inventory at a cost of ksh 43,200 that would normally sell for ksh 60,000 were found to be defective and ksh 15,700 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 31<sup>st</sup> Dec 2015.

[5 marks]

(b) Patel Ltd purchased a motor vehicle in the month of January 2016 for ksh 2.5 million. The policy of the company is to depreciate motor vehicles at a rate of 25% on reducing balance method. The motor vehicle was sold on 31<sup>st</sup> December 2017 at a cash price of ksh 850,000. A full year depreciation is provided for both in the year of acquisition and disposal.

**Required :**

- (i) Journal entries to record the sale of motor vehicle [6 marks]
  - (ii) Motor vehicle disposal account. [4 marks]
  - (c) Discuss any five control mechanisms put in place by firm to mitigate cash misappropriation and embezzlement by employees. [5 marks]
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