CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BBAM/BCOM 211: INTERMEDIATE ACCOUNTING 1

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 03/02/2021 **8.30 A.M – 10.30 A.M.**

INSTRUCTIONS:

- **Attempt Questions one and any other two.**

Question One

a)The International Accounting standards Board (IASB) is continuously working with other accounting standard setting bodies in the world so as to have a global application of international Financial Reporting Standards. An important point of focus is a conceptual framework for financial reporting.

Briefly explain any four aspects of a conceptual framework for financial reporting. (8 marks)

b) Date Ltd sold an equipmentthat initially costShs.480,000 on which there was accumulated depreciation of Shs. 250,000. The equipment was sold for Sh.170,000.

Required: Asset disposal account (8 marks)

c)SGL Limited commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 2019. The expenditure of Sh. 400,000 per month was incurred until the project was completed on 30 June 2019 when the drug went into immediate production. The directors became confident of the project's success on 1 March 2019. The company year-end is 30 September 2019.

Required:The value of intangible asset as at the year end. (6 marks)

d) As at 31 March 2019, Bora Ltd had 12,000 units of product W32 in inventory, included at cost of Sh.6 per unit. During April and May 2019 units of W32 were being sold at a price of Sh5.40 each, with sales staff receiving a 15% commission on the sales price of the product.

At what amount should inventory of product W32 have been recognised in the financial statements of Bora Ltd as at 31 March 2019?

(8 marks)

Question Two

a)The following balances of non-current assets were extracted from the financial records of Excel ltd as at 1 June 2018.

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

The following information relates to the year ended 31 May 2019

1.Land and buildings were revalued on 1 June 2018 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 traded-in for a new vehicle costing Sh.3 million and the company was required to pay Sh.2.4 million in cash settlement of the trade in balance.

3.The depreciation policy of Excel ltd was as follows:

Asset	Basis of depreciation	Rate per annum (%)
Land	-	-
Buildings	Straight line	2.5%
Furniture and fixtures	Straight line	10%

Plant and equipment	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 2019. (14 marks)

b) Describean asset and describe the criteria for recognizing assets in the financial statements. (6 marks)

Question Three

a)Once property, plant and equipment has been acquired and installed for use, a reporting entity subsequently incurs additional costs.

Describe the accounting treatment forany four different types of expenditures incurred subsequent to acquisitionon property, plant and equipment. (8 marks)

b) Link Ltd. decides to change its manufacturing process in order to accommodate anew product that will be introduced next year. The company decided to trade a factorymachine that is no longer used in their production for a new machine that will be usedto make the new product. The machine that is being disposed of had an original cost of Sh780,000 and accumulated depreciation of Sh.600,000. The fair value of the old machine at the time of exchange was Sh220,000. The new machine being obtained has a list price of Sh.610,000. After a period of negotiation, the seller finally agreed to sell the newmachine to Link Ltd. for cash of Sh.330,000 plus the trade-in of the old machine.

Required:

Journal entry to record the exchange and acquisition of the asset. (12 marks)

Question Four

a)XYZ Ltd. purchased a building for Sh.2 million on 1st January 2015. Its estimated useful life at that date was 20 years and the company uses straight line depreciation method. On 31st December 2019 the government embarked on a plan to construct a fly-over adjacent to the building and the related installation reduced the access to the building thereby decreasing the value of the building. The company estimated that it can sell the company for Sh.1 million but it has to incur costs of Sh.50,000. Alternatively, it if continues to use it the present value of the net cash flows the building will help in generating is Sh.1.2 million

Required:Journal entry to record impairment loss and the carrying amount of the building after the impairment review. (10 marks)

b) Total Ltd. operates in an industry that has a high rate of bad debts. Before the year-end adjustments, Total Ltd's accounts receivable has a debit balance of Sh. 536,000 and the allowance for doubtful accounts had a credit balance of Sh.20,000. The year-end balance reported on the statement of financial position for the allowance for doubtful accounts will be based on the aging schedule shown below:

Aging Category	Bad Debt %	Year-end Balance
Less than 16 days	2%	300,000
16 – 30 days	3%	100,000
31 – 45 days	5%	75,000
46 – 60 days	10%	32,000
61 – 75 days	20%	18,000
Over 75 days	40%	11,000
		536,000

Required:

i) The balance for the allowance for doubtful accounts at year end. (8 marks)

ii) Journal entry to record bad debt expense for the year. (2 marks)
