

**CHUKA**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**THIRD YEAR EXAMINATIONS FOR THE AWARD OF DEGREE OF BACHELOR OF AGRIBUSINESS MANAGEMENT**

**AGBM 311: FINANCIAL ACCOUNTING II**

**STREAMS: AGBM Y3S1**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 22/4/2013**

**11.30 AM – 1.30 PM**

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**INSTRUCTIONS:**

**Attempt Question ONE and any other TWO Questions.**

**Question One**

- (a) Describe common techniques for cash controls in an organization. [4 Marks]
- (b) When a company has a policy of making sales for which credit is extended, it is reasonable to expect a portion of those sales to be uncollectible. As a result of this a company must recognize bad debt expense.
- (i) Briefly explain both the direct write-off method and the allowance method of recognizing bad debt expense. [4 Marks]
- (ii) Discuss the reasons why one of the above methods is preferable to the other and the reasons why the other method is not usually in accordance with generally accepted accounting principles. [2 Marks]

- (c) The following transactions relate to the year ending 31<sup>st</sup> December 2012.
- (i) Buzz Magazine sold 12000 annual subscriptions on August 1,2012, for Sh.1800each. Prepare Buzz Magazine's 1<sup>st</sup> August 2012, journal entry and the December 31,2012, annual adjusting entry. [4 Marks]
- (ii) SGL Ltd had consumed electricity worth Ksh. 50,000 by the end of the year 31<sup>st</sup> December 2012 but the bill had neither been received nor paid for. Pass the entries in the company's account on 31<sup>st</sup> December 2012. [2 Marks]
- (d) Kindaruma Limited had accounts receivables of Sh. 97,500 at March 31<sup>st</sup> 2012. Analysis of the accounts shows the following:

<b>Months of sale</b>	<b>Balance, March 31<sup>st</sup> 2012</b>
	<b>Sh.</b>
March	65,000
February	17,600
January	8,500
Prior to January	<u>6,400</u>
	<b><u>97,500</u></b>

The Credit terms are 2/10, n/30. As at 31<sup>st</sup> March 2012, the allowance for doubtful debts account had a credit balance of Sh. 1,600 prior to adjustment. The company uses the percentage of receivables basis for estimating uncollectible accounts. The company's estimate of bad debts is as follows:

<b>Age of Accounts</b>	<b>Estimated Percentage Uncollectible</b>
1 - 30 days	2.0%
31 – 60 days	5.0%
61 – 90 days	30.0%
Over 90 days	50.0%

**Required:**

- (i) Determine the total estimate uncollectible debts. [6 Marks]
- (ii) Prepare the adjusting entry at March 31<sup>st</sup> 2012 to record bad debts expense. [2 Marks]

**Question Two**

- (a) Distinguish between product costs and period costs as relate to inventory accounting. [4 Marks]

(b) Remu Limited reports the following data:

Beginning Inventory:	100 units at Sh.6
Purchase: (all credit)	900 units at Sh.6
Sales (all credit)	600 units at Sh.12
Ending Inventory:	400 units at Sh.6

**Required:**

Pass journal entries under both the perpetual and periodic inventory systems.

[6 Marks]

(c) Describe the criteria for the initial recognition and measurement of intangible assets.

[6 Marks]

(d) Product development costs are a material cost for many companies. They are either written off as an expense or capitalized as an asset.

**Required:**

Discuss the conceptual issues involved and the definition of an asset that may be applied in determining whether development expenditure should be treated as an expense or an asset.

[4 Marks]

**Question Three**

(a) Bahati limited incurred the following costs in relation to the construction of a new factory and the introduction of its products to the local market.

Cost item	Sh '000'
Site preparation costs	240
Materials used	1,500
Labour costs, including Sh.90, 000 incurred during an industrial dispute. No construction occurred during the period of the dispute	3,190
Testing of various processes in factory	150
Consultancy fees re installation of equipment	220
Relocation of staff to new factory	110
General overheads	500
Costs to dismantle the factory at end useful life in 10 years time	<u>100</u>
	6,010
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**Required:**

- (a) Cost to be capitalized for the new factory as per requirements of IAS 16. [12 Marks]
- (b) Briefly explain the nature and purpose of accounting for depreciation. [4 Marks]
- (c) Identify the key components of stockholder's equity as reflected in the statement of financial position. [6 Marks]

**Question Four**

- (a) Differentiate between: [2 Marks]
  - (i) Bond and long term note. [2 Marks]
  - (ii) Convertible and Callable Bond. [2 Marks]
- (b) Explain the classification of financial assets as per IAS 39 accounting for financial instruments. [6 Marks]
- (c) Zeze Limited issued a 10%, 2 year Sh.800,000 Bond on 1<sup>st</sup> January 2010. Interest is paid semi annually and the effective interest rate was 9%.

**Required:**

Using the effective interest method, show the journal entries to recognize interest expense. [10 Marks]

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