



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

**THIRD YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF
BACHELOR OF SCIENCE IN AGRICULTURAL EDUCATION AND EXTENSION
SECOND SEMESTER, 2023/2024
(JANUARY-APRIL, 2024)**

AGBM 311: FINANCIAL ACCOUNTING II

STREAM: Y3 S2

TIME: 2 HOURS

DAY: FRIDAY, 9:00 – 11:00 A.M.

DATE: 05/04/2024

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Question ONE and any other TWO Questions.***

QUESTION ONE

(a) 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. [6 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. [6 Marks]

b) Describe common techniques for cash controls in an organization. [4 Marks]

c) The following transactions relate to the year ending 31st December 2022.

(i) Buzz Magazine sold 12000 annual subscriptions on August 1, 2022, for Sh.1800 each.

Prepare Buzz Magazine's 1st August 2022, journal entry and the December 31, 2022, annual adjusting entry [4 Marks]

(ii) SGL Ltd had consumed electricity worth Ksh. 50,000 by the end of the year 31st December 2022 but the bill had neither been received nor paid for. Pass the entries in the company's account on 31st December 2022. [2 Marks]

(b) Kindaruma Limited had accounts receivables of Sh. 97,500 at March 31st 2022. Analysis of the accounts shows the following:

Months of sale Balance,

	Sh.
March	65,000
February	17,600
January	8,500
Prior to January	97,500

The Credit terms are 3/10, n/30. As at 31st March 2022, the allowance for doubtful debts account had a credit balance of Sh. 1,640 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:

Age of Accounts Estimated with Percentage Uncollectible

Age in days	Percentage uncollectible
1 – 31 days	2.2%
32– 60 days	5.3%
61 – 90 days	32.6%
91 and above days	59.9%

Required:

- (i) Determine the total estimate uncollectible debts. [6 Marks]
- (ii) Prepare the adjusting entry at March 31st 2022 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:

Item	Units	Price
Beginning Inventory:	108	6.8
Purchase:	(all credit) 907 units)	17.7
Sales	671 units	12.76
Ending Inventory:	406`	6.6

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) Outi 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 incurred during an industrial dispute.	900
Construction cost 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 useful life in 10 years' time	<u>100</u>

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. Exam the differentiate between

(i) Convertible and Callable Bond

[2 Marks]

(ii) Bond and long term note.

[2 Marks]

(iii) Trade receivables

(a) Explain the classification of financial assets as per IAS 39 accounting for financial instruments.

[6 Marks]

(b) Zebi Limited issued a 10%, 2.6 year Sh.880,000 Bond on 1st January 2022. 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]