

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF AGRIBUSINESS MANAGEMENT**

AGBM 223: FINANCIAL ACCOUNTING II

STREAMS: AGBM

TIME: 2 HOURS

DAY/DATE: FRIDAY 07/12/2018

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- **There are four questions in this paper. Answer question ONE and any other two**
- **Show all necessary workings**
- **Be clear, neat and orderly**
- **Clarity and orderliness will receive extra marks**

QUESTION ONE

- (a) Define the term accounting as per the American accounting association [2 marks]
- (b) How is an asset different from a liability [2 marks]
- (c) Write short notes on the following terms as used in financial accounting
- (i) Going concern concept [2 marks]
 - (ii) Materiality concept [2 marks]
 - (iii) Prudence concept [2 marks]
 - (iv) Matching concept [2 marks]
 - (v) Accrual concept [2 marks]
- (d) Identify and briefly explain any FOUR characteristics that depicts a good financial statements of an entity [4 marks]

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- (e) Accounting information is a communication of economic actions to specific users interested to make informed decisions. Enumerate SIX users of financial reports and briefly explain their specific interests. [6 marks]
- (f) Differentiate the following accounting terms
- (i) Discount receivable and discount allowed [2 marks]
 - (ii) Bad debts and provision for doubtful debts [2 marks]
 - (iii) Factoring and pledging [2 marks]

QUESTION TWO

- (a) Write brief notes on the following terms
- (i) Perpetual inventory [2 marks]
 - (ii) Periodic stock-tacking [2 marks]
- (b) Mr. Chapa Kazi commenced business on 1 January, 2018 with a capital of kshs 500,000. The company decided to specialize in single product line called pawpaw and by the end of June 2018, his purchases and sales of this product were as follows:

Date	Purchases		Sales	
		Units price (shs)	Units	Unit price (shs)
Jan	300	500	20	700
Feb	-	-	5	720
April	400	600	25	800
May	250	650	30	850
June	200	700	20	900

Required:

Ascertain the company's gross profit for the period where stocks are valued using:

- (i) FIFO method [7 marks]
- (ii) LIFO method [7 marks]
- (iii) List FOUR benefits of stock taking [2 marks]

QUESTION THREE

The following information was extracted from the books of Mufungano ltd of 2018

- Oct. 1 Started business with shs. 25,000
- Oct. 2 Bought good by paying a cheque of shs. 3,800
- Oct. 3 Bought goods from H. Marshall shs. 5,000
- Oct. 4 Sold goods to AB & Co. shs 2,600
- Oct. 5 Cashed a cheque for office use shs 2,000
- Oct. 6 Sold goods to Kariuki shs. 3,700
- Oct. 7 Paid expenses in cash shs. 300
- Oct. 10 Sold goods for cash shs. 2,500
- Oct. 18 Received from AB & Co. a cheque of the amount due less 4% cash discount
- Oct. 25 Paid H. Marshall by cheque of the amount due less 4% cash discount
- Oct. 29 Paid wages in cash shs. 1,000
- Oct. 30 Banked cash shs 500

Required:

- (i) Three column cash book and related ledgers [14 marks]
- (ii) Trial balance [6 marks]

QUESTION FOUR

- (a) Outline four reasons for developing accounting standards [4 marks]
- (b) The following balances were included in the statement of financial position of Chunga Mali Ltd as at July 2015

Assets	Cost Shs '000'	Accumulated depreciation Shs '000'	Net Book Value Shs '000'
Land	40,000.00	-	40,000.00
Building	22,000.00	8,000.00	14,000.00
Plant & machinery	16,000.00	6,000.00	10,000.00
Motor vehicles	6,000.00	2,000.00	4,000.00

During the year ended 30 June 2016, the following transactions took place:

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1. On 1 January 2016, a plant of that had cost shs. 3,000,000 and a cumulative depreciation of shs. 2,300,000 as at 30 June 2015 was sold for shs. 500,000. A new plant was then purchased at a cost of shs. 4,000,000
2. On 1 January 2016, a professional valuer was engaged and the buildings were revalued at shs 34,000,000
3. On 1 April 2016, a motor vehicle was purchased at shs 300,0000. Part of the purchase price was settled by exchanging another motor vehicle at an agreed value of shs. 120,000 and the balance paid for in cash. The trade in vehicle had cost sh. 200,000 and had a net book value of shs. 100,000 as at 30 June 2015

The company charges depreciation at the following rates:

<u>Asset</u>	<u>Rates p. a</u>
Land	-
Building	2%
Plant & machinery	15%
Motor vehicles	20%

Note: full charge is made in the year of purchase, sale or revaluation:

Required:

- (i) Building account [2 marks]
- (ii) Provision for depreciation on buildings account [2 marks]
- (iii) Plant and machinery account [2 marks]
- (iv) Provision for plant and machinery account [2 marks]
- (v) Motor vehicles account [2 marks]
- (vi) Provision for motor vehicles account [2 marks]
- (vii) Property, plant and equipment movement schedule for year ended 30 June 2016

[4

marks]