



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAD 081: INTERMEDIATE ACCOUNTING

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Bilbo Baggins started a business providing limousine taxi services on 1 January 20X5. In the year to 31 December he incurred the following costs:

	\$
Office premises	250,000
Legal fees associated with purchase of office	10,000
Cost of materials and labour to paint office in Bilbo's favourite colour, Purple	300
Mercedes E series estate cars	116,000
Number plates for cars	210
Delivery charge for cars	180
Road licence fee for cars	480
Drivers' wages for first year of operation	60,000
Blank taxi receipts printed with Bilbo Baggins' business name and number	450

What amounts should be capitalized as 'Land and buildings' and 'Motor vehicles'?

(10 marks)

- b) During the year ended 31 July 2017 Collins Ltd lost some of their accounting data due to a computer virus. Whilst they have managed to reconstruct elements of their financial statements they need some help determining their sales revenue for the year.

Their closing trade receivables figure at 31 July 2016, taken from the prior year's statement of financial position, was \$98,425. You have reviewed the list of receivables (the memorandum) and calculated that the receivables outstanding at 31 July 2017 total \$107,550. After discussions with management you also determine that shortly prior to the year-end \$1,500 of trade receivables were written off as irrecoverable. This has not been reflected in the list of balances/memorandum.

To assist you one of your bookkeepers has reconciled the cash books with the bank statements for the year and has calculated that \$245,675 has been received from customers during the year. Cash till receipts confirm that \$53,435 was received during the year from cash sales. The remainder constitutes receipts from credit customers. What was the total sales revenue of Collins Ltd for the year ended 31 July 2017? **(10 marks)**

c) Receivables at the start of the accounting period for B Rubble's business were \$30,000. There were total receipts from customers of \$55,000 of which \$15,000 relates to cash sales and \$40,000 relates to receipts from receivables. Contras with payables in the year totalled \$3,000 and closing receivables were \$37,000. What is the value of receivables during that period. **(5 marks)**

d) Distinguish the difference between current assets and current liabilities **(5 marks)**

Q2. a) Araf & Co have total accounts receivable at the end of their accounting period of \$45,000. Of these it is discovered that one, Mr. Xiun who owes \$790, has been declared bankrupt, and another who gave his name as Mr. Jones has totally disappeared owing Araf & Co \$1,240. Calculate the effect in the financial statements of writing off these debts as irrecoverable. **(7 marks)**

b) Celia Jones had receivables of \$3,655 at 31 December 20X7. At that date she wrote off a debt from Lenny Smith of \$699. During the year to 31 December 20X8 Celia made credit sales of \$17,832 and received cash from her customers totalling \$16,936. She also received the \$699 from Lenny Smith that had already been written off in 20X7. What is the final balance on the receivables account at 31 December 20X7 and 20X8? **(5 marks)**

c) On 31 December 2011 Jake Williams had receivables of \$10,000. At that date, Jake estimated that there was evidence that amounts totalling \$300 may not be recovered as those receivables were already overdue and he therefore wanted to make a specific allowance for this amount. During 2012, Jake made sales on credit totalling \$100,000 and received cash from his customers of \$94,000. At 31 December 2012, Jake now considered that there was doubt regarding the recoverability of amounts

totalling \$700 which were overdue and which may not be recovered. The allowance for receivables should therefore be increased from \$300 to \$700.

During 2013 Jake made sales of \$95,000 and collected \$96,000 from his receivables. At 31 December 20X3 Jake now considered that amounts totalling only \$600 required an allowance for being overdue at that date. The allowance for receivables should therefore be adjusted from \$700 to \$600.

Calculate the allowance for receivables and the irrecoverable debt expense as well as the closing balance of receivables for each of the years 2011, 2012, 2013. **(8 marks)**

- Q3. a) Discuss the concept applied to record the transaction if the owner of a business takes goods from inventory for his own personal use **(5 marks)**
- b) Which concept is applied when a business records the cost of a non-current asset even though it does not legally own it? **(5 marks)**
- c) Discuss subsequent expenditure in valuation of assets at cost. **(7 marks)**
- d) How is inventory valued under IAS 2 **(3 marks)**
- Q4. a) The draft financial statements of Madras, a limited liability company, for the year ended 31 December 2016 are currently under review. The following points have been raised:
State with reasons what adjustments, if any, should be made by Madras in the financial statements.
- i) An ex-employee has started an action against Madras for wrongful dismissal. The company's legal team have stated that the exemployee is not likely to succeed. The following estimates have been given by the lawyers relating to the case: (a) Legal costs (to be incurred whether the claim is successful or not) \$5,000 (b) Settlement of claim if successful \$15,000 Currently no provision has been made by Madras in the financial statements.
 - ii) Madras has a policy of refunding the cost of any goods returned by dissatisfied customers, even though it is under no legal obligation to do so. This policy of making refunds is generally known. At the year end, Madras reliably estimated that returns totalling \$4,800 will be made after the year-end.
 - (iii) A customer has made a claim against Madras for injury suffered following the purchase and use of a defective product. Legal advisers have confirmed that Madras will probably have to pay financial compensation of \$100,000 to the customer. In turn, Madras has made a counter-claim

against the supplier of the defective product for \$100,000 and believes it is probable that its claim against the supplier will be successful.

Required;

State with reasons what adjustments, if any, should be made by Madras in the financial statements. **(7 marks)**

- b) Smith Ltd's year-end is 31 December 2017. In November 2017 they dismiss an employee. In February 20X8 a customer slips whilst on their premises and breaks her arm.

In March 2018 both the employee and the injured customer sue Smith Ltd; the former for unfair dismissal and the latter for compensation for injuries suffered on Smith's premises. Should an obligation be recognized at 31 December 2017 for either of these lawsuits? **(5 marks)**

- c) Write short notes on the following;

- i) Contingent liabilities
- ii) Receivables
- iii) Marketable securities
- iv) Inventory

(8 marks)

END