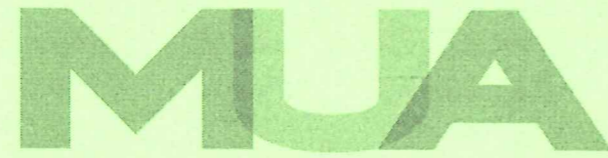


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 211: ACCOUNTING FOR ASSETS

DATE: 2ND AUGUST 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Kinoo Ltd entered into a 3year noncancellable lease of equipment on 1st January of year 2018 with semiannual lease rental payments of Sh.105,000. The first instalment is was due on 1.1.2018. The lease rental payments include Sh.5,000 for property taxes. The lessee's increamental borrowing rate is 12% p.a. while the Kinoo Ltd's rate implicit in the lease is 10%. The lease contains a bargain purchase option of Sh.20,000 at the end of the lease contract. The equipment has an estimated useful life of 4 years; the equipment has an estimated salvage value of Sh.10,000 at the end of the 4 years. Kinoo Ltd paid legal fees of Sh.10,000 at the commencement of the lease.

Required:

- i) Identify the type I conditions fulfilled by the lease contract to make it be classified as a direct financing lease in the books of Kinoo Ltd (4 Marks)
- ii) Determine the lease receivable at 1.1.2018 (4 Marks)
- iii) Prepare a lease receivable amortization schedule at that date (Hint: estimate the rentals and related values to the nearest whole shilling). (9 Marks)
- iv) Prepare journal entries to recognize transactions and events at inception and through the course of the lease (8 Marks)

QUESTION TWO

On January 1, 2017, ABC Company purchased 12% bonds, having a maturity value of Sh.300,000, for Sh.322,744. The bonds provide the bondholders with a 10% yield. They are dated January 1, 2017, and mature January 1, 2022, with interest receivable December 31 of each year. ABC Company uses the effective interest method to allocate unamortized discount or premium. The bonds are classified in the held to maturity category.

- i) Prepare the journal entry at the date of the bond purchase. (2 Marks)
- ii) Prepare a bond amortization schedule. (9 Marks)
- iii) Prepare the journal entry to record the interest received and the amortization for 2017 & 2018. (4 Marks)

QUESTION THREE

- a) Examine three accounting principles to observe with regard to accounting for investments **(5 Marks)**
- b) Usually, the amount of profit made during an accounting year and the cash balance at the end of the same accounting year would not be the same. Discuss any five reasons for this. **(10 Marks)**

QUESTION FOUR

The broad principles of accounting for tangible non-current assets involve distinguishing between capital and revenue expenditure, measuring the cost of assets, determining how they should be depreciated and dealing with the problems of subsequent measurement and subsequent expenditure. IAS 16, Property, Plant and Equipment, has the intention of improving consistency in these areas.

Required:

- i) Explain how the initial cost of tangible non-current assets should be measured **(4 Marks)**
- ii) Discuss the circumstances in which subsequent expenditure on those assets should be capitalized. **(3 Marks)**
- iii) Explain IAS 16 requirements regarding the revaluation of non-current assets and the accounting treatment of surpluses and deficits on revaluation and gains and losses on disposal. **(8 Marks)**

QUESTION FIVE

Kabete Ltd sold goods worth Sh.750,000 on credit and offered its customers a trade discount of 10% of the gross sales. The sales were made under the credit terms 1.75/10, n/30. Some customers representing 12% of the net receivables paid within the first 10 days after the sale. The remaining debtors were treated as follows: The first 28% were sold away to a factor without recourse who paid everything except Sh.11,000 that represented the factoring cost and Sh.45,000 retention money that was receivable after the expiry of 30 days The next 35% were converted into bills

receivable. Sh.92,000 of these bills were discounted after ten days at Sh.88,000 while the rest were collected upon maturity except Sh.35,000 worth of bills receivable that were dishonored after accruing an interest of Sh.2,500. The remaining accounts receivables were allowed to run to their maturity. The provision for bad and doubtful debts was increased by Sh.5,500 because of this category of accounts receivables. All the customers under this category paid their dues to Kabete Ltd by the end of the credit period except an account receivable of Sh.17,500 that was written off as bad and unrecoverable.

Required:

- i) Examine two important GAAPs Kabete Ltd would rely on when providing for bad and doubtful debts. **(4 Marks)**
- ii) Prepare journal entries to record the above transactions if the retention money was subsequently received after expiry of the credit period. **(11 Marks)**

QUESTION SIX

- a) Jabali has recently retired and intends to use his savings and retirement benefits to start a small business. He is keen to maintain proper books of accounts and attended a short course on "Introduction to Accounting for Small Businesses". He did not however understand the concept of depreciation, why it is important, the concept of useful life and its determination, depreciation methods and the determinants of the methods of depreciation to use. Draft a report to Jabali addressing his concerns with reference to IAS 16: Plant, Property and Equipment. **(10 Marks)**
- b) ABC Ltd buys a factory machine at Sh. 10,000,000 including the purchase price and all other capitalisable costs like installation, freight, taxes, com-missions and borrowing costs. The most conservative estimates indicate that the plant facility would be useful for 5 years a time over which it is expected to churn out an output equivalent to 100,000,000 units. At the end of the useful life, it is expected to have a salvage value of Sh. 2,000,000 after considering all incidental costs of disposal. Assuming that the output from the machine was 25m, 15m, 20m 30m and 10m for years 1,2,3,4 and 5 respectively, prepare depreciation schedules based on straight Line Method **(5 Marks)**