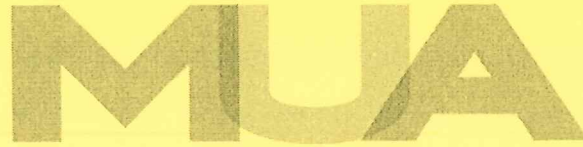


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

BCM 211: ACCOUNTING FOR ASSETS

DATE: 7TH DECEMBER 2022

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

- a) IAS 16: property, plant and equipment gives certain criteria to be satisfied before an item of property, plant and equipment should be recognized as an asset. State these criteria and state the value at which the asset should be measured initially. Give six examples of directly attributable costs that could be included in the value and four examples of cost that should not be included in the value.

(10 Marks)

- b) Chumuki Supermarket Limited is a quoted company which runs 22 Supermarket stores throughout Kenya. 12 of these stores are situated in and around Nairobi and all 12 are supplied by Chumuki's central godown situated in the industrial area of Nairobi. Pricing, marketing and human resources policies are decided centrally by Chumuki. All stores are managed in the same way and management run the business on a store-by-store profit basis. Recently, the Githurai store has seriously underperformed against its budget for the year ending 31 December 2020. Rising insecurity in the area together with difficulties in obtaining access to the store have seriously adversely affected its financial performance. The Githurai store together with the Kahawa store were purchased from Ruiru Superstores on 1 January 2018 for Sh.25 million and Sh.25 million and Sh.15 million respectively plus goodwill of Sh.8 million for both stores. The stores are being depreciated on the straight-line method to nil residual value over 20 years the goodwill is being amortized to nil on the straight-line basis over the same period. The Githurai store could be sold for Sh.15 million net. Its value in use is Sh.20 million. Management have performed a "bottom-up" test in relation to the goodwill and the purchase prices of the stores and are satisfied that a "top-down" test is not needed.

Required:

- i) Examine in detail how the impairment loss should be recognized for the Githurai cash-generating unit in the financial Statements for the year ending 31 December 2020: neither depreciation nor amortization has yet been charged for this period. (5 Marks)
- ii) Determine the carrying value of the Githurai cash-generating unit after the impairment loss has been recognized. Ignore deferred tax. (10 Marks)

QUESTION TWO

- a) ABC Ltd is a merchandising company that deal specifically with buying and selling of cooking oil. They normally purchase the oil in bottles at Sh.200 and resell them at a mark-up of 25%. During a given accounting period when the inventory at the beginning was 100 bottles of cooking oil, the following transactions took place:
- i. Purchases: Purchased 1,000 bottles of oil on credit.
 - ii. Sales: Sold 850 bottles of cooking oil for cash
 - iii. Returns Outwards: Returned 50 bottles of oil to the supplier
 - iv. Payments: settled the entire bill due to the suppliers

Required: Pass journal entries to show the effect of these transactions both under periodic and perpetual inventory systems (10 Marks)

- b) Discuss any five merits of factoring (5 Marks)

QUESTION THREE

- a) Examine any five items of income statements (5 Marks)

- b) Discuss any five advantages that underlie the conceptual framework of accounting principles (10 Marks)

QUESTION FOUR

- (a) Examine two objectives of IAS 7 (Cash Flow Statements). (2 Marks)
- (b) The following are extracts from the financial statements of Wewe Ltd. As at 31 March:

	2021		2020	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
Fixed assets:				
Goodwill		2,800		2,900
Freehold land and building		16,800		12,000
Plant and machinery (NBV)		5,860		6,350
Investment at cost		<u>3,600</u>		<u>3,750</u>
		29,060		25,000
Current assets:				
Stocks	10,050		8,700	
Accounts receivable	6,140		7,800	
Investments	1,710		840	
Cash at hand and bank	<u>200</u>		<u>430</u>	
	18,100		17,770	
Current liabilities	(2,390)		(6,540)	
Bank overdraft	(5,850)		(5,250)	
Accounts payable	(450)		(380)	
Proposed dividends	<u>(820)</u>		<u>(600)</u>	
Taxation	(9,510)		(12,770)	
		8,590		5,000
Net current assets		37,650		30,000
15% debentures		<u>(7,500)</u>		<u>(9,000)</u>
		30,150		21,000
Capital and reserves:				
Authorised, issued and paid Sh.10		18,000		15,000
Ordinary shares		1,500		750
Share premium		4,500		-
Revaluation reserve		<u>6,150</u>		<u>5,250</u>
Retained profit				
		<u>30,150</u>		<u>21,000</u>

The profit and loss appropriation account for the year ended 31 March 2021 is given below:

	Sh.'000'	Sh.'000'
Net profit before tax		2,400
Less: Corporation tax		<u>900</u>
Profit after tax		1,500
Dividends:		
Interim (paid)	150	
Proposed (paid)	<u>450</u>	<u>600</u>
		<u>900</u>

The following additional information is provided:

- Profit for the year is arrived at after charging:

	Sh.'000'
Depreciation on plant and machinery	1,150
Goodwill amortisation	420

- During the year, plant with a net book value of Sh.750,000 was sold for Sh.1,470,000. The plant had originally cost Sh.3,000,000.
- The investments portfolio was reduced by selling one block of shares at a profit of sh.160,000.

Required:

Cash flow statement in accordance with IAS 7.

(13 Marks)

QUESTION FIVE

a) In the context of IAS 11 (Construction contracts), briefly explain the meaning of the following terms:

- | | | |
|-------|-----------------------|-----------|
| (i) | Construction contract | (2 Marks) |
| (ii) | Fixed price contract | (2 Marks) |
| (iii) | Cost plus contract. | (2 Marks) |

b) ABC Ltd purchased equipment was purchased on 1.1.2010 at Sh.2,500,000. It is the policy of the company to depreciate it on a straight-line basis over 20 years. The company revalued the buildings on 31st December 2012 to Sh.2,000,000. Determine the loss on revaluation at 31.12.2012. **(4 Marks)**

c) ABC Ltd had acquired equipment at Sh.1,000,000 at 1.1.2008 to be used for 20 years. The company depreciates equipment on a straight-line basis. It sold the equipment on 30th June 2012 at Sh.750,000. Determine the loss or gain on disposal. **(5 Marks)**

QUESTION SIX

a) Discuss any three factors considered in determining the present value of the lease receivables. **(3 Marks)**

- b) Ujenzi Limited are engaged in a number of long-term contracts. The following details relate to the three uncompleted contracts in the company's books at 31st Aug 2013

Contract No.	X012 Sh.'000'	X022 Sh.'000'	X023 Sh.'000'
Cost of work to 31 st Aug. 2013	1,218	1,091	545.6
Value of work 31 st Aug 2013 as certified by contract architects	1,540	880	572
Progress payments invoice to 31 st Aug 2013	1,320	704	440
Process payment received by 31 st Aug 2013	1,100	704	440
Final cost including future costs of rectification and guarantee work	1,320	1,540	2,640
Final contract price	1,672	1,232	3,520

Note 1: The cost of work to 31 Aug. 2013 has been determined after crediting unused materials and written down for plant of use.

Required:

Prepare a statement for the managing director showing your calculations for each contract of valuation of W.I.P at 31st Aug 2013 and of profit or loss included therein (use % of completion) (12 marks)

