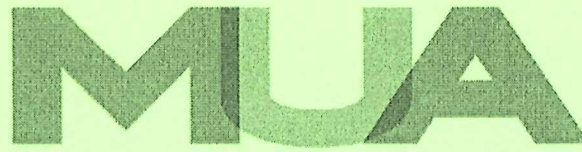


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

BCM 211: ACCOUNTING FOR ASSETS

DATE: 4TH APRIL 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) Discuss four principal qualities of useful financial information (8 Marks)
 b) The following income statement and balance sheets relate to Wakazi Ltd. For the years ended 31 March 2013 and 2014:

	Income statement for the year ended 31 March 2014	
	Sh.'000'	Sh.'000'
Sales		358
Operating expenses		(235)
Operating profit		120
Interest income	3	
Interest expense	(7)	(4)
Profit before tax		116
Taxation		(32)
Profit after tax		84
Less: Dividends		(20)
Retained profit for the year		64

	Balance sheets as at 31 March	
	2014 Sh. 'million'	2013 Sh. 'million'
Non-current assets:		
Tangible	367	196
Intangible	3	4
	<u>370</u>	<u>200</u>
Current assets:		
Stock	140	155
Trade debtors	132	110
Interest receivable	1	2
Cash	4	21
Total current assets	<u>277</u>	<u>288</u>
	<u>647</u>	<u>488</u>

	2014 Sh. 'million'	2013 Sh. 'million'
Equity and liabilities:		
Ordinary shares of Sh.10 par value	110	90
10% preference shares of Sh.10 par value	20	20
Share premium	44	35
Revaluation reserve	7	-
Retained profits	<u>135</u>	<u>81</u>
	<u>316</u>	<u>226</u>
Non current liabilities	20	40
6% Debentures	<u>50</u>	<u>42</u>
Finance leases	<u>70</u>	<u>82</u>
	216	135
Current liabilities:	29	20
Trade creditors	3	2
Tax payable	5	3
Interest payable	<u>8</u>	<u>20</u>
Finance leases	<u>261</u>	<u>180</u>
Bank overdraft	<u>647</u>	<u>488</u>
Total equity and liabilities		

Additional information:

1. During the year ended 31 March 2014, Wakazi Ltd, issued 1 million Sh.10 ordinary shares at 100% above their par value, incurring issue costs of Sh.1 million. Subsequent to this, a bonus issue of 1 for every 10 shares held was made from the retained earnings.
2. Tangible noncurrent assets include certain assets which were revalued during the year ended 31 March 2014 giving a surplus of Sh.7 million. Assets capitalized under finance lease agreements amounted to Sh.28 million. Disposals of assets having a net book value of Sh.19 million realized Sh.21 million. Depreciation charged for the year ended 31 March 2014 was Sh.37 million.
3. There were no acquisitions or disposals of intangible assets during the year ended 31 March 2014
4. Debentures worth Sh.20 million were redeemed at par during the year ended 31 March 2014

5. Interest on finance leases of Sh.3 million is included in the interest expense charged to the income statement for the year ended 31 March 2014

Required:

- c) Cash flow statement for the year ended 31 March 2004 (14 Marks)
- d) Discuss any three reasons for holding inventory (3 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 the journal entry to record the interest received and the amortization for 2017 & 2018 (13 Marks).

QUESTION THREE

- a) ABC Ltd buys a factory machine at Sh. 10,000,000 including the purchase price and all other capitalizable costs like installation, freight, taxes, commissions 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. Prepare depreciation schedule using Straight Line Method assuming that the output from the machine was 25m, 15m, 20m 30m and 10m for years 1,2,3,4 and 5 respectively. (10 Marks)
- b) Explain any five advantages of invoice discounting. (5 Marks)

- ✓ By receiving cash as soon as a sales invoice is raised, the business will

QUESTION FOUR

- a) The following abridged trial balance relates to ABC Ltd as at 31st December 2012. The company depreciates buildings at 5% straight line and does not depreciate land.

	Shs	shs
Land	600000	
Buildings	2400000	
Buildings cumulative depreciation		1200000
Revaluation reserve		225000
Retained earnings		300000
Profit for the year before adjustments		600000
Other items	1500000	2175000
	<u>4500000</u>	<u>4500000</u>

Prepare a schedule for plant, property and equipment assuming that the land and buildings were revalued on the 1st of January 2012 on the 31st of December 2012 at Sh.1,500,000 and Sh.675,000 for buildings and land respectively given that the residual value of the buildings at the revaluation time is estimated at Sh.600,000

(10 Marks)

- b) Explain any five reasons for the above

(5 Marks)

QUESTION FIVE

ABC Ltd was engaged to construct a building to serve as the head office for XYZ Ltd. The construction work commenced on 1.6.2015 and the following information was extracted from the books of JKUAT Builders on 29.11.2015

	<u>Sh.</u>
Contract price	1,500,000
Payment for direct wages	240,000
Accrued wages, 29 November	10,000
Materials issued	275,000
Materials returned to store	2,500
Plant and equipment at cost on 1.6.2005	150,000
Installation costs	125,000
Payment of salaries	75,000
Salaries accrued 29 November	5,000
Value of plant and equipment 29 November	100,000
Value of work certified	800,000
Estimated costs of extra work yet to be completed	400,000
Cash received from contractee	750,000
Hire of crane	50,000

Prepare the contract account for the building for the six months to November 28, 2015, as it would appear in the records of ABC Ltd (15 Marks)

QUESTION SIX

- a) Explain the importance of the importance of the framework of accounting. (5 Marks)
- b) The following transactions relate to item A101 stocked by Excel Products Ltd. for the month of September 2016:

Receipts:

Date	Quantity	Unit Cost (Sh)
3	2,500	18
10	2,700	21
17	3,100	22
19	2,800	21
25	2,750	22
27	3,200	23
30	3,250	24

Issues

Date	Quantity
6	3,300
16	2,800
23	2,250
26	3,950
28	2,600
30	6,950

The closing balance for the month of August 2016, was a batch of 3,000 units received at a unit price of Sh.20.

Required

Under FIFO system of stores issues, a stores perpetual inventory record for item A101.
(10 Marks)

