

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: 11th April 2019

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

Read the Case Study below carefully and answer the questions that follow:

An 80% subsidiary company of Chai Limited, the Kericho Tea Company Limited, incurred expenditure of Sh. 200 million in constructing a tea factory and farmworks over a 2 year period to 31 May 2015. These assets were used for the first time on 1 June 2015. They are depreciated in equal instalments over their useful life of 20 years to a nil residual value.

On 31 May 2013, these assets were revalued at Sh. 360 million by Hysons Tabenga and company, registered valuers. There was no change in the estimate of their useful life. The assets were depreciated in accordance with Kenya Accounting Standard No. 5. On 31 May 2017, the assets were again revalued; it was found that there had been a diminution in value of the assets to Sh. 160 million.

Required:

- (a) Write the appropriate accounts in the books of the Kericho tea Company Limited from 1 June 1985 to 1 June 1997 in accordance with Kenyan Accounting Standard No. 17. **(10 Marks)**
- (b) Show the entries in the Property, plant and equipment schedule for the year ended 31 May 1997 and in the Movement on Group Reserves for the year: these assets are included in the titled "Land, Development, Building and Farmworks." **(15Marks)**

QUESTION TWO

The following information relates to item T01 stocked by Macho products Ltd for the month of April 2012

Date	Receipts Units	Issue s Units	Unit cost (Sh)
3	2,400		18
4		3,200	
6	2,600		20
12		2,700	
14	3,000		22
18	2,800		21
20		2,200	
22	2,600		23
25		3,800	
26	3,100		24
27	2,500		25
28	3,200		26
29		6,900	

The closing balance for March 2012 was a batch of 3,000 units received at a unit price of Sh 19.

Required

- a) Stores perpetual inventory record for item TOI for May 2012 under LIFO system of stores issues

(10 Marks)

- b) Closing stock valuation (5 Marks)

QUESTION THREE

- a) Give clear distinctions between operating and finance leases. (6 Marks)
- b) With the help of appropriate examples, define the term intangible asset (3 Marks).
- c) Examine the three critical attributes of an intangible asset (6 Marks).

QUESTION FOUR

- a) Differentiate between the following paired concepts
- Revenue Expenditure and capital expenditure (2 Marks).
 - Capital income and revenue income (2 Marks).
- b) On 1 January 2008, Nyota Ltd, contracted with Ujenzi Ltd. to construct a building for Sh.20 million on land that Nyota Ltd. had purchased five years earlier. The contract will last for a year, with Nyota Ltd. making five payments in 2008. The building was completed on 31 December 2008.

Nyota Ltd. made the following payments in 2008:

	Sh million
1 January 2008	20
31 March 2008	40
30 June 2008	61
30 September 2008	44
31 December 2008	<u>35</u>
	<u>200</u>

Nyota Ltd. had the following debt outstanding at 31 December 2008:

- A 12%, 4-year note dated 1 January 2008 with interest compounded quarterly. Both principal and interest due on 31 December 20X0 (relates specifically to building project) Sh. 85 million.
- A 10%, 10-year note dated 31 December 2004 with simple interest and interest payable annually on 31 December Sh.60 Million.
- A 12%, 5-year note dated 31 December 2006 with simple interest and interest payable annually on 31 December Sh.70 million.

Required

The amount of interest to be capitalized during 2008 in relation to the above contract (11 Marks)

QUESTION FIVE

- a) "Much as accounting standards are important in the preparation of financial statement, the basic accounting concepts play a very important role on the integrity and the reliability of the financial reporting" Examine this statement by highlighting any three fundamental accounting principles and their application in preparation of financial statements. Provide practical examples in each case (9 Marks)
- b) There may be difficulties in establishing the useful life of an intangible asset and hence judgment would be needed. Evaluate any three factors that you will consider in determining the the useful life of a purchased brand name? (6 Marks)

QUESTION SIX

- a) A company that extracts natural gas and oil has a drilling platform in the Caspian Sea. It is required by legislation of the country concerned to remove and dismantle the platform at the end of its useful life. Accordingly, the company has included an amount in its accounts for removal and dismantling costs, and is depreciating this amount over the platform's expected life. The company is carrying out an exercise to establish whether there has been an impairment of the platform.
- i. Its carrying amount in the balance sheet is Kshs.3m
 - ii. The company has received an offer of Kshs.2.8m for the platform from another oil company. The bidder would take over the responsibility (and costs) for dismantling and removing the platform at the end of its life.
 - iii. The present value of the estimated cash flows from the platform's continued use is Kshs.3.3m
 - iv. The carrying amount in the balance sheet for the provision for dismantling and removal is currently Kshs.0.6m

What should be the value of the drilling platform in the balance sheet, and what, if anything is the impairment loss? (7 Marks)

- b) Examine any four desirable characteristics of accounting information (8 Marks)

