



BCM 211: ACCOUNTING FOR ASSETS

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MARKING SCHEME-1

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CAUTION: *This Marking scheme is a guide to ensuring that fairness and justice is applied when marking the examinations. There may be instances where students may originate an argument outside this scheme and in such circumstances; student's effort will be credited as long as the point and its relevant arguments are related to the question.*

Required

QUESTION ONE

a) Journal Entries and Prior Period Adjustments (7 Marks)

Workings:

Head office building cost = Sh.100m

Useful life = 50 years

Annual depreciation = $100 / 50 = \text{Sh.}2\text{m}$ per year

Accumulated depreciation to 30 June 2002 (11 years) = $11 \times 2 = \text{Sh.}22\text{m}$

Carrying amount at 30 June 2002 = $100 - 22 = \text{Sh.}78\text{m}$

Fair value at 30 June 2002 = Sh.468m

Revaluation surplus (building) = $468 - 78 = \text{Sh.}390\text{m}$

Land:

Cost = Sh.10m

Fair value = Sh.50m

Revaluation surplus (land) = 40m

Journal Entry (Prior Period Adjustment):

Dr Land 40m

Dr Building 390m

Cr Revaluation Reserve 430m

(Being revaluation of land and building)

Investment property fair value adjustment:

Fair value at 30 June 2002 = Sh.310m

Cost = Sh.300m

Gain = Sh.10m (credited to retained earnings under IAS 40)

7 marks allocated for correct workings, entries, and presentation.

b) Balance Sheet Extracts (8 Marks)

Deferred tax on revaluation surplus:

Tax rate = 30%

Deferred tax = 30% × 430m = Sh.129m

Net revaluation reserve = 430 – 129 = Sh.301m

Marks awarded for:

Correct land and building figures – 4 marks

Revaluation reserve – 2 marks

Deferred tax – 2 marks

c) Cost Model vs Fair Value Model (4 Marks)

Any two differences, 2 marks each:

- Cost model records assets at cost less depreciation
- Fair value model records assets at market value with gains/losses in P&L

d) Impairment Concerns (6 Marks)

Marks awarded for:

- Decline in rental income
- Vacant floors
- Market value uncertainty
- IAS 36 requirements
- Risk of overstatement of assets
- Protection of users of financial statements

QUESTION TWO

a) FIFO Closing Stock Valuation

Opening stock: 3,000 units @ Sh.20 = 60,000

Total receipts during September:

3rd: 2,500 @ 18

10th: 2,700 @ 21

17th: 3,100 @ 22

19th: 2,800 @ 21

25th: 2,750 @ 22

27th: 3,200 @ 23

30th: 3,250 @ 24

Total units available = 23,300 units

Total issues = 21,850 units

Closing stock = 1,450 units

FIFO closing stock valuation:

1,450 units @ Sh.24 = Sh.34,800

b) Impact of FIFO under IAS 2

FIFO assumes earliest goods purchased are sold first. In periods of rising prices, FIFO results in higher closing inventory values, higher profits, and higher tax liabilities. Inventory is reported closer to current market value, improving balance sheet relevance.

QUESTION THREE

a) Journal Entry at Purchase

Dr Investment in Bonds 322,744

Cr Cash 322,744

b) Bond Amortization Schedule (Effective Interest Method)

Interest rate (yield) = 10%

Coupon rate = 12% of 300,000 = 36,000 per year

Year 2017:

Interest income = $322,744 \times 10\% = 32,274$

Premium amortized = $36,000 - 32,274 = 3,726$

Closing carrying amount = 319,018

Year 2018:

Interest income = $319,018 \times 10\% = 31,902$

Premium amortized = $36,000 - 31,902 = 4,098$

Closing carrying amount = 314,920

c) Journal Entries

2017:

Dr Cash 36,000

Cr Investment in Bonds 3,726

Cr Interest Income 32,274

2018:

Dr Cash 36,000

Cr Investment in Bonds 4,098

Cr Interest Income 31,902

QUESTION FOUR

a) Accounting Principles:

i) Going concern concept

ii) Prudence concept

iii) Depreciation / matching principle

iv) Materiality concept

b) Construction Contract

Percentage of completion based on costs incurred.

Gross profit recognized proportionately each year under POC method; entire profit recognized in final year under completed contract method.

QUESTION FIVE

a) Depreciation and Revaluation

Cost = 1,200,000

Residual value = 200,000

Depreciable amount = 1,000,000

Annual depreciation = $1,000,000 / 5 = 200,000$

Accumulated depreciation after 3 years = 600,000

Carrying amount before revaluation = 600,000

Revalued amount = 900,000

Remaining life = 2 years

New annual depreciation = $900,000 / 2 = 450,000$

b) IAS 16 Treatment

Revaluation surplus credited to OCI and equity. Depreciation based on revalued amount. Any downward revaluation charged to profit or loss unless offsetting prior surplus.

QUESTION SIX

a) Journal Entries (FVTPL)

Purchase:

Dr Investment 250,000

Cr Cash 250,000

Dividend:

Dr Cash 15,000

Cr Dividend Income 15,000

Fair value adjustment:

Fair value = $5,000 \times 55 = 275,000$

Gain = 25,000

Dr Investment 25,000

Cr Fair Value Gain (P&L) 25,000

b) Comparison of IAS 38, IAS 39, IAS 40

IAS 38 covers intangible assets such as patents and goodwill. IAS 39 deals with financial instruments including investments. IAS 40 applies to property held for rental income or capital appreciation.