UNIVERSITY OF EMBU

2021/2022 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 209: ACCOUNTING AND REPORTING FOR ASSETS

DATE: DECEMBER 3, 2021 **TIME:** 11:00 AM – 1:00 PM

INSTRUCTIONS:
Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

a) Explain the measurement basis of Assets (6 marks)

b) Illustrate two asset classification bases citing relevant examples (4 marks)

c) Assume that Bahati enterprises had sold goods worth shs50,000 to Soko traders on 1January 2011 on credit. By the end of the year the debt was still outstanding and Bahati decided to write it off. On February 28th, 2011 Soko traders promised to pay his expected amount and he paid the amount as at 30th March, 2011. Required.

i. Prepare Journal entry to record the transactions (5 marks)

ii. Show the appropriate ledger account to effect the promise and the payment (5 marks)

d) Explain three disclosure requirements for intangible assets according to IAS 38 (6 marks)

e) Highlight four advantages of using the perpetual inventory system of accounting for inventory (4 marks)

QUESTION TWO (20 MARKS)

Smith Limited entered into the following contract during the year ended 31 July 2008. Items of specialized equipment were leased at a cost of €8,000 per month payable in advance. The lease term is for two years from 1 October 2007 and can be cancelled at any time by either party to the lease. Any maintenance is to be carried out by the lessor. The equipment would have a cost of €300,000 if purchased in the open market and is expected to have a useful life of seven years. Required,

1) Explain with justification the type of lease described above (5 marks)
2) Show the journal entries to record the monthly payment (5 marks)
3) Distinguish between finance and operating lease citing relevant examples (10 marks)

QUESTION THREE (20 MARKS)

The following are the balance sheets of T Holmes as at 31 December 20X6 and 31 December 20X7:

		31.12.20X6	*31.12.20X7*	
Fixed assets	£	£	£	£
Premises at cost		25,000		28,800
Current assets				
Stock	12,500		12,850	
Debtors	21,650		23,140	
Cash and bank balances	4,300		5,620	
	38,450		41,610	
Less Current liabilities				
Creditors	(11,350)		(11,120)	
Working capital		27,100		30,490
		52,100		59,290
Financed by:				
Capital				
Opening balances b/d		52,660		52,100
Add Net profit for year		16,550		25,440
		69,210		77,540
Less Drawings		(17,110)		(18,250)
		52,100		59,290

Note: **For simplicity, no depreciation has been charged.**

Required: Prepare a cash flow statement for T Holmes for the year ended 31st December 20X7 (20 marks)

QUESTION FOUR (20 MARKS)

ABC ltd is a media developer. On 1st Jan, 04, the co – imported specialized electronic equipment from the United States. The following costs were incurred:-

Purchase price (list price) –sh 800,000 (trade discount of sh.5% granted)

Insurance and freight – sh.250, 000

Duty (include claimable vat sh.36000) – sh.146, 000

Pre – production testing include (abnormal losses sh.64, 000) - sh.129, 000

Installation cost sh.480, 000

The equipment was put in to use on 1st July, 04 and was estimated to have a useful life of 5 years and a residual value of sh.150, 000.

On 31st Dec, 06 the equipment was estimated to have a remaining useful life of 2years andresidual value of a nil.

Accounts are prepared on 31st Dec, and depreciation provided on a straight line withproportionate change in the year of acquisition.

Required:-

(a) Compute the initial cost of the equipment. (5 marks)

(b) Depreciation charge for each of the year end 31st Dec, 04 05, 06, 07. (5 marks)

(c) Prepare extracts of the income statement and balance sheet. (10 marks)

QUESTION FIVE

a) Explain the recognition criteria for Intangible assets (10 marks)

b) Below is a financial position statement of Wachira Kenya ltd as at 31st Dec, 2010.

Wachira Kenya ltd

Statement of financial position as at 31st Dec 2010Non – Current Assets		sh.(in million)
Land and building	20	
Motor vehicle	5	
Equipment	3	
Furniture and Fittings	4	
32		
Current Assets		
Stock	2.2	
Debtors	1.6	

Cash at Bank	0.7
4.5	
Current Liabilities	
Trade Creditors	0.8
Other Creditors	0.5
	1.3
Net Current Assets	**3.2**
Total Net **Assets**	**35.2**
Financed by	
Ordinary shares	30
Retained Earnings	9.
Shares Premium	6.2
	35.2

For the last three years the company has suffered a continuous financial distress. As a result they resolved to sell the company as a going concern. They approach Songa Mbele Kenya ltd who paid a consideration of 28.4m.

The book value of value of net assets were equal to market value, and were paid from thefollowing items:-

i) Land and Building had a fair value of adjustment to the excess of 0.4m.
ii) Debtors needed a provision for bad debts at a rate of 5%.

Required:

a) Determine the fair value of net assets acquired by Songa Mbele. (5 marks)
b) Determine the goodwill (2 marks)
c) Show how the goodwill above will be accounted for in the Financial statements of Songa (K) (3 marks)

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