



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 200

COURSE TITLE: ACCOUNTING FOR ASSETS

DATE: 4 APRIL 2017

TIME: 3.00 PM – 6.00 PM

INSTRUCTIONS TO CANDIDATES

1. QUESTION ONE IS **COMPULSORY**.
2. ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

QUESTION ONE

- (a) ABC limited is a small firm based in Ruiru. The firm has experienced financial problems and the management has sought a buyer, XYZ limited which is based in Nairobi. The following is the assets and liabilities of ABC limited. XYZ limited acquired 70% of ABC limited at kshs 100,000.

	Kshs
Debtors	90,000
Creditors	30,000
Premises	150,000
Accruals	30,000
8% Kcb Loan	230,000
Notes payable	130,000
Land	350,000

Required:

Calculate the value of Net Assets

(3 marks)

- (b) Risk is inherent in financial statements. Discuss 3 types of risks likely to affect financial statements **(9 marks)**
- (c) BTL limited sold goods on credit to Jethro valued at kshs 45,000 on 1st January 2016. Jethro decided to evade paying BTL limited. He went underground and BTL limited decided to write off the debt since they could not trace Jethro. The firm however reported the incident to the Credit reference bureau who warned Jethro with legal action if he did not settle his debt. In July, the same year Jethro promised to pay his debt and issued BTL limited with a cheque and fully settled the debt owed to the firm.

Required:

- i) Bad debts account **(2 marks)**
- ii) Bad debts recovered account **(2 marks)**
- iii) Debtors account **(2 marks)**
- iv) Extracts of financial statements **(4 marks)**
- (d) According to the money measurement concept, only the resources which have a monetary value should be included in the financial statements. Discuss four asset measurement basis **(8 Marks)**
- (e) Discuss five types of costs that are included in the cost of an asset **(10 Marks)**

(40 Marks)

QUESTION TWO

- (a) Sarova firms requires a specialized machine to expand its operations. The management has the option of buying the machine locally or importing it from China. The cost of importing the machine includes

kshs

List price	1,960,000
Freight and insurance	71,000
Installation	40,000
Duty (VAT kshs 5,000)	29,000
Site preparation (included abnormal loss of kshs 3,000)	18,000
The general overheads amounted to kshs	33,000

Additional information

During the first year, the firm operated under capacity and made losses of kshs 45,000. They were to get a trade discount of 6% if they bought the machine from China and also get technological support on the use of the machine. On the other hand buying the machine locally would cost the firm kshs 2,200,000.

Required:

- i) Advise the firm whether to buy the machine locally or import it from China **(5 marks)**
- ii) Assuming the machine in i) above was bought and was put in to use on 1st April 2017. The depreciation is charged at 10% on a straight line basis.

Required:

- a) Compute the depreciation charge for the year 2017 **(3 marks)**
 - b) If on 1st January 2018, the depreciation policy is changed and the asset is expected to last for 5 years. Compute the expected depreciation for 2018 **(2 marks)**
 - iii) Discuss the asset recognition criteria **(8 marks)**
- (20 marks)**

QUESTION THREE

- a) ABC limited had the following assets and liabilities as o 31st December 2015

Items	kshs
Premises	120,000
Land	200,000
Machine	140,000
Debtors	70,000
Creditors	90,000
Loan	80,000
Bank	50,000

Required:

- i) Compute the Net Assets of the business **(4 marks)**
- ii) If XYZ limited paid kshs 70,000 and acquired 60% of ABC limited, Compute the value of goodwill **(4 marks)**
- iii) Discuss the factors that have influenced the value of ii) above **(12 marks)**

(Total 20 marks)

QUESTION FOUR

- a. During the year ended 31st December 2016, the profit made by Josh and Amos partnership business was kshs 125,000
 - 1. This was after making adjustments for depreciation at kshs 7,000 and profit on disposal of machinery and furniture at kshs 6000 and kshs 2,000 respectively
 - 2. The machine had been sold for kshs 45,000 while the furniture was sold for kshs 13,000
 - 3. Stock had increased by kshs 11,000 while debtors decreased by kshs 23,000
 - 4. Creditors increased by kshs 35,000 while other current liabilities decreased by kshs 10,000
 - 5. The firm had paid out kshs 40,000 to its employees as wages
 - 6. A debenture valued at kshs 56,000 was redeemed in the year while debenture interest paid out was kshs 8,000
 - 7. The firm issued 1000 shares of a par value of kshs 20 for shs 50
 - 8. A loan of kshs 100,000 was given to the firm by KCB bank
 - 9. The business acquired a machine to increase the efficiency of the business operations at a cost of kshs 45,000

Required:

Prepare a cashflow statement using the above information **(10 marks)**

- b. Discuss the two classification of assets while giving the significance of each for the firm **(6 marks)**
- c. Differentiate between the direct format and the indirect format methods of preparing a cashflow statement **(4 marks)**

(20 marks)

QUESTION FIVE

- a. A bank reconciliation statement reconciles the difference between the bank statement and the cashbook bank column. Discuss five causes of the differences between the cashbook bank balance and the bank statement **(10 marks)**
- b. Non current assets constantly lose value over time. Discuss five causes of depreciation of non current assets **(10 marks)**