



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 200

COURSE TITLE: ACCOUNTING FOR ASSETS

DATE: 10 AUGUST 2018

TIME: 3.00 PM – 6.00 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: 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.*

SECTION A: COMPULSORY

Question One

- a) Kasuku intends to acquire a machine to aid in the processing of goods at his warehouse. The machine can be acquired both locally and through importing. The cost of acquiring the machine locally is kshs 500,000. He will need to transport the machine to his premises at a cost of kshs 150,000. Importing the machine will cost him kshs 200,000. Excluded thereof is the cost of freight and insurance, duty and other miscellaneous costs kshs 200,000, kshs 180,000 and kshs 240,000 respectively. Once acquired the machine is expected to last for 5 years with nil residue Required:
- Advise Kasuku whether to import or buy the machine from the local market **[5 marks]**
 - Assume the machine was bought on 30th June 2017, compute the depreciation for the year ended 2017. **[3 marks]**
- b) ABC limited had a bank balance of kshs 250,000 while the bank statement showed a balance of kshs 400,000. Discuss six factors that could have contributed to the difference in the bank balance as per the cash book and as per the bank statement **[12 marks]**
- c) XYZ limited sold goods on credit to Kilonzo for kshs 127,000 on 1st May 2017. Kilonzo paid kshs 23,000 through issuing a cheque to the business on 21st the same month. However a post-election crisis occurred which led to the destruction of his business. He was declared bankrupt and could not pay the remaining debt. On 1st January 2018, he resumed business and promised to pay XYZ the balance he owed them. He settled the amount on 31st of January 2018.
- Required
- Ledger accounts to show the credit sales transaction **[4 marks]**
 - Bad debts account **[2 marks]**
 - Bad debts recovered account **[2 marks]**
 - Financial Statement extracts (assuming accounts are prepared monthly) **[4 marks]**
- d) Discuss the cost valuation aspects used to attach value to assets **[8 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Karoki runs a business whose net profit was kshs 45,000 for the year ended 31st December 2017. The following are the some of the items that had been adjusted in order to arrive at the net profit

Depreciation	40,000
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Wages	100,000
Profit on sale of furniture	56,000

Additional information

1. The inventories had increased by kshs 49,000 compared to the previous year statement of the financial position
2. Debtors decreased by kshs 87,000
3. Creditors increased by kshs 23,000
4. The business issued 1000 shares of kshs 30 each. The par value is kshs 20 for each share.
5. He acquired a loan from Kcb bank of kshs 100,000
6. He redeemed kshs 50,000 debenture and paid the amount through the issue of a cheque to the person who had lent the business the money
7. Interest on the debt capital amounted to kshs 14,000 which was paid to the bank
8. The furniture which was acquired 9 years ago were disposed for kshs 15,000
9. He acquired machinery worth kshs 67,000 on cash basis
10. The opening cash balance was kshs 19,000

Required: prepare a Cashflow statement using the above information **[10 marks]**

- b) Discuss the factors that influence the value of goodwill in a business **[10 marks]**

Question three

- a) Explain four asset recognition criteria used to define assets **[8 marks]**

- b) Bidco acquired 80% stake in Mtec suppliers for kshs 280,000. Mtec had the following assets and liabilities

Machinery	100,000
Premises	230,000
Inventories	23,000
Debtors	57,000
Creditors	35,000
Kcb loan	300,000

Required

- i) Compute the value of net assets **[4 marks]**
- ii) Compute the value of goodwill **[2 marks]**
- iii) In your opinion explain ways of improving the value of a firm **[6 marks]**

Question Four

- a) In computing the value of a non current assets explain five costs that do not qualify to be capitalised as part of the cost of an asset [10 marks]
- b) Explain the two types of assets classification [4 marks]
- c) Discuss three types of risks likely to affect financial instruments [6 marks]

Question five

The following 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 2010

Non current assets

k.shs(millions)

Land and building	20
Motor vehicles	5
equipment	3
furniture and fittings	<u>4</u>
	<u>32</u>

Current assets

stock	2.2
debtors	1.6
cash at bank	<u>0.7</u>
	<u>4.5</u>

Current liabilities

Trade creditors	0.8
Other creditors	<u>0.5</u>
	<u>1.3</u>

Net current assets

Total net assets **35.2**

Financed by

Ordinary shares	30
Retained earnings	9
Share premium	<u>6.2</u>
	<u>35.2</u>

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 approached DK Kenya ltd who paid a consideration of 28.4m.the book value of net assets were equal to market value, and were paid from the following items:

I. Land and buildings 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 DK Ltd **[5 marks]**
- b) Calculate goodwill if any by DK Ltd, highlight the required accounting entries **[7 marks]**
- c) Distinguish between: (i) purchased goodwill and internally generated goodwill **[4 marks]**
 - (ii) Amortisation and revaluation **[4 marks]**