

Mount Kenya



University

UNIVERSITY EXAMINATION 2010/2011

SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIT CODE: CAC 312

UNIT TITLE: ACCOUNTING FOR ASSETS

DATE: AUGUST 2011

MAIN EXAM

TIME: 2HRS

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION 1

- a) The phrase "transaction and other events and circumstances affecting an entity" is used to describe the sources or causes of changes in an entity's assets, liabilities and equity THESE events are of two types
- i) External
 - ii) Internal

Required

Explain the two giving appropriate examples (5mks)

- b) List the 5 typical uses of the journal (5mks)
- c) Explain the following terms as used in accounting
- i) Nominal ledgers
 - ii) Initial recognition
 - iii) Intangible asset
 - iv) Impairment of fixed asset (4mks)
- d) Outline the possible element of cost of PPE (4mks)
- e) H ltd acquired 50,000 of the 80000 issued sh. 10 each ordinary shares of S ltd at a cost of ksh. 1,587,500 on 31st July 2005. The retained profit of S ltd on 1st jan 2005 was Ksh. 560,000 and generated reserves amounted to sh. 780,000. For the year ended 31/12/05 the company made a profit of sh. 180,000 which is seemed to have accrued evenly while the general reserves remained unchanged. The fair value of asset appropriated to their book value.

Required

Compute the goodwill on acquisition

f) Assume that a business rented part of a building for a 3 year period from 1st January 2011 to a tenant who paid the 3 full year rent in advance amounting to sh. 60,000
Required

a) Journal entries to record the above transactions (4mks)

b) Ledger entries showing appropriate adjusting entries (4mks)

QUESTION 2

Roko Ltd has balance sheet at 31st December 2009 and 2010 as follows

	2009	2010		2009	2010
Share capital	Sh mil	Sh mil		Sh mil	Sh mil
Sh 20 shares	10,000	20,000	Fixed assets		
			Cost	40,000	79,600
			depreciation	(15,400)	(22,000)
Share premium	-	30,000		24,600	57,600
Revenue reserves	44,000	63,000	Investment	-	20,000
15% loan 2010	-	20,000	stock	32,000	46,000
			Debtors	18,400	20,400
Creditors	16,000	18,000			
			Bank	-	7,000
Overdraft	5,000	-			
Total	75,000	151,000		75,000	151,000

The profit for 2010 was sh. 30 mil and an interim dividend of sh. 11mil was paid. There were no final dividend and the taxation should be ignored

Fixed assets which had costs sh.10mil and which had been depreciated by sh.4mil were sold for sh. 5.4 mil

Required

Statement of cash flow for the year ended 31 December (20mks)

QUESTION 3

A ltd requires a specialized machine at a cost of Ksh. 5M which was put into use on 1st January 2008. Depreciation is provided is on a straight line over 10 year

Due to intense competition there was significant decline in market share and indicated that the asset was to be sold for sh. 3.2 at a commission of 5 %

The asset could also be used to produce an alternative product at high inefficiency rate providing annual cash flows of 0.5m over the remaining useful life which was unchanged. Discount rate of 10% is appropriate.

Required

- a) Compute the impairment loss to be recognized on 31/Dec/07
- b) Prepare extracts of financial statements as at 31 December 2007 and 2008
(20mks)

QUESTION 4

T Ltd purchased a debt security for sh. 5m at a discount for sh. 4,670,000 on 1st January 2004. The debt is payable in 5yrs time at an interest rate of 6% p.a payable annually in arrears

The expected rate of interest of the investment is approximately 7.65%. This is a discount rate that will give a present value of the future cash flows that equal the purchase price i.e. the IRR implied in the contract

Required

Using a mortised cost method, show the subsequent measurement; assuming that the investment was classified as held to maturity (20mks)

QUESTION 5

- a) Define the term goodwill. Outline the characteristics and categories of goodwill
(10mks)
- b) Assets are the backbone of any business. Discuss (10mks)