

Mount Kenya



University

UNIVERSITY EXAMINATION 2011/2012

SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIT CODE: 312

UNIT TITLE: ACCOUNTING FOR ASSETS

DATE: APRIL 2012

MAIN EXAM

TIME: 2HRS

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

1. a) What do we mean by recordability of a business events and transactions?
(4mks)
- b) Differentiate the following terms as used in accounting
 - i. Recoverable amount and realizable amount (3mks)
 - ii. Value in use and salvage value (3mks)
- c) Explain the following financial instrument assets
 - i. Financial assets at fair value through income statement
 - ii. Loans and receivable originates by the enterprise
 - iii. Held to maturity financial assets
- d) Outline and explain the common characteristics of intangible assets (4mks)
- e) Write short notes on the following
 - i. Provision for doubtful debts
 - ii. Marketable securities
 - iii. Cost elements to be included in initial cost of property, plant and equipment (10mks)
2. A Ltd acquired a specialized machine at a cost of Ksh 5million which was put into use on 1st /Jan/2005. Depreciation is on a straight line over years. Due to intense competition there was significance decline in market share. An impairment review as at 31/Dec/07 indicated that the asset was to be sold for sh. 3.2 and a commission of 4% to be paid
The asset could also be used to provide an alternative product at high inefficiency rate providing annual cash flow 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 (5mks)

- b) Prepare extracts of the financial statement as at 31/Dec/07 and 31/ Dec/08 (15mks)
3. a. On 1st/July/2011, mambo, the sole proprietor of Mambo Yote traders rented a building in Thika. The annual rent was sh 300,000 but he drew a cheque sh 2mil on the same date
- Required:**
- Show ledger entries in relation to the transaction (3mks)
 - Show the adjusting entries necessary as at 31/Dec/2011 when the year ends (4mks)

b. The following information was got from the books of Poa Merchants

- Water bill for 1 year-sh 20,000
- Amount paid sh 80,000
- An account initially affected-insurance expense account

Required –show appropriate adjusting and reversing entries at the end of the year and start of year respectively (7mks)

c. Outline and explain any 6 factors that evidence impairment (6mks)

4. Poko ltd have financial position statement at at 31/Dec 2010 and 2011 as below

	2010	2011	2010	2011
	Sh'000'	sh'000'	sh'000'	sh'000'
Share capital	10,000	20,000	fixed assets 40,000	79,000
			Depreciation (15400)	(22000)
Share premium	–	30,000	24600	57600
Revenue reserves	44000	63000	investment –	20,000
			Stock 32000	46000
15% loan	–	20,000	debtors 18400	20400
			Bank –	7000
Creditors	16000	18000		
Overdraft	<u>5000</u>	–		
	<u>75000</u>	<u>151000</u>	<u>75000</u>	<u>151000</u>

The profit for 2011 was sh 30,000,000 and an interim dividend of sh 11,000,000 was paid no final dividend and taxation should be ignored

Fixed assets which had cost of sh 10,000,000 and which had been depreciated by sh 4,000,000 were sold for sh 5,400,000

Required:

Prepare cash flow statement for the year ended 31/Dec/2011 (20mks)

5. The following information were got from the books of Kcb (u) ltd

- i) Face value of 6% p.a debt security purchased sh5 million
- ii) Discount received sh 500,000
- iii) Effective interest rate 7.65%

Required:

- a) Table of a mortization over the years
- b) Extract of financial statement for each of the years ended 31/Dec