KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF EDUCATION

BAC 200: ACCOUNTING FOR ASSETS

DATE: Thursday 31st March, 2016 **TIME: 11.00 a.m - 1.00 p.m**

INSTRUCTIONS:

Question one

The bank statement for the current account of Management Systems Inc. (MSI) showed a December 31, 2015, balance of sh. 1,463,212. Information that might be useful in preparing a bank reconciliation is as follows:

a) Outstanding cheques were sh. 132,025.
b) The December, 31, 2015 , cash receipts of sh. 57,500 were not deposited in the bank until January 2, 2016.
c) One cheque written in payment of rent for sh. 24,600 was correctly recorded by the bank but was recorded by MSI as 26,400.
d) In accordance with prior authorization , the bank withdrew sh. 45,000 directly from the current account as payment on a mortgage note payable. The interest portion of that payment was sh. 35,000. MSI has made no entry to record the automatic payment.
e) Bank service charges of sh. 1,400 were listed on the bank statement.
f) A deposit of sh. 87,500 was recorded by the bank on December 13, but it did not belong to MSI. The deposit should have been made to the current account of MIS Inc.
g) The bank statement included a charge of sh. 8,500 for an NSF cheque. The cheque was returned with the bank statement and the company will seek payment from the customer.

h) MSI maintains a sh. 20,000 petty cash fund that was appropriately reimbursed at the end of December.

i) According to instructions from MSI on December 30, the bank withdrew sh. 1,000,000 from the account and purchased Kenya government treasury bills. MSI recorded the transaction when in its books on December 31 when it received notice from the bank. Half of the treasury bills mature in two months and the other half in six months.

Required:

a) Prepare a bank reconciliation for the MSI current account at December 31, 2015. You will have to compute the balance per the books. (10 marks)

b) Prepare any necessary adjusting journal entries indicated. Use compound journal entries. (7 marks)

c) What amount should MSI report as cash and cash equivalents in the current assets section of the December 31, 2015, balance sheet? (3 marks)

Question Two

a) Briefly explain how inventories are valued at the end of a financial year in the context of IAS 2 (inventories). (4 marks)

b) Bamba Ltd inventory as at 31st December 2015 consists of products A and B. The relevant per unit data for these products appear below.

	Product A	Product B
	Sh'000'	Sh'000'
Estimated selling price	120	110
Cost	75	80
Estimated cost to completion	30	30
Estimated selling Cost	10	18

Required:

Unit value for each of the inventory items above for purposes of reporting in the statement of financial position as at 31st December 2015. (6 marks)

Question Three

a) Identify any four factors that may indicate that an asset is impaired. (4 marks)

b) The value attached to property, plant and equipment is influenced by the mode of acquisition. Briefly explain the accounting treatment of the following modes of acquisition.

i) Donated assets. (2 marks)

ii) Exchanges of Nonmonetary Assets. (2 marks)

c) Faida Ltd. extracted the following information relating to its property, plant and equipment as at 31 March 2015 including the estimated useful lives of the assets on the dates of acquisition.

Asset	Cost Sh.'Million'	Accumulated Depreciation Sh.'Million'	Estimated Useful lives Years
Freehold Land	60		
Building: Factory	150	30	50
Office Premises	180	30	45
Plant and machinery	475	365	10

Additional information:

1. The freehold land and buildings were revalued by a professional valuer on 1 April 2015 as follows:

Asset	Sh.'Million'
Freehold Land	400
Building: Factory	240
Office Premises	150

2. The following assets were acquired on 1 October 2015.

Asset	Sh.'Million'
Plant and machinery	100
Computers	8

The useful life of the computer is 4 years.

3. Depreciation is provided on a pro rata basis from the date of acquisition using straight line method.

Required:

Property, plant and equipment movement schedule for the year ended 31st March 2016.

(12 marks)

Question four

a) The Bronco company exchanged land for a patent. The land had a book value of sh. 1,200,000 and fair value of sh. 1,500,000. Bronco paid the owner of the patent sh. 100,000 to complete the exchange.

Required:

i)What is the fair value of the patent? (2 marks)

ii) Prepare the journal entry to record the exchange. (3 marks)

b) Delta ltd bought 40% of Clay ltd outstanding ordinary shares on January 2, 2015 for sh. 54,000,000. During the year Clay reported net income of sh. 22,000,000 and paid a sh. 8,000,000 dividend.

Required:

Prepare appropriate journal entries during 2015 for the investment. (6 marks)

c) Lone company occasionally uses its accounts receivable to obtain immediate cash. At the end of June 2014, the company had accounts receivable of sh. 780,000 . Lone needs approximately sh. 500,000 to capitalize on a unique investment opportunity. On July 1 , 2014, a local bank offers the following:

Borrow sh. 500,000, sign a note payable , and assign the entire receivable as collateral. At the end of each month , a remittance will be made to the bank that equals the amount of receivables collected plus 12% p.a interest on the unpaid balance of the note at the beginning of the period.

Required:

i) Prepare the journal entries that would be recorded on July 1. (4 marks)

ii) Assuming that 80% of all June 30 receivables were collected during July , prepare the necessary journal entries to record the collection and remittance to the bank. (5 marks)