PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

SEPTEMBER-DECEMBER 2019

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: CAC302

COURSE TITLE: ACCOUNTING FOR ASSETS

EXAM DATE: MONDAY 9th DECEMBER 2019

DURATION: 2 HOURS

TIME: 2:00PM-4:00PM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This exam script consists of **Six (6)** questions.
- Answer question **ONE** and ANY other **three** Questions.
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE: COMPULSORY

a) Explain three accounting principles used in accounting for assets (6 Marks)

b) Discuss two qualitative characteristics of useful accounting information (4 Marks)

c) Alex and Charles were in partnership sharing profit and losses in the ratio of 3:2 respectively.

Their statement of financial position as at 31 December 2010 was as follows:

Alex & Charles Enterprises
Statement of Financial Position as at 31st December 2010

Non-Current Assets			
Plant and machinery			2,800,000
Fixtures and fittings			400,000
Investments			1,000,000
			4,200,000
Current assets			
Inventory		600,000	
Trade receivable	2,000,000		
Less: provision for bad debts	(100,000)	1,900,000	
Bank		1,150,000	3,650,000
Total Assets			**7,850,000**
Capital & Liabilities			
Capital: Alex			800,000
Charles			500,000
Reserves			1,000,000
Accumulated profits			(750,000)
			1,550,000
Liabilities			
Non-Current Liabilities			
Loan from Alex			1,500,000
Loan from KCB			1,000,000
Current Liabilities			
Creditors			3,800,000

Additional information

On 1st Jan 2011 the partners decided to dissolve the partnership after serious disagreements and the following information was provided:

1. Alex took over the investment at Sh 800,000 and also agreed to pay the loan from KCB.
2. The assets realised the following amounts:
   - Stocks sh 500,000
   - Trade receivables sh 1,850,000
   - Fixtures & fittings sh 450,000
   - Plant & machinery sh 2,500,000
3. Dissolution expenses amounted to sh 110,000

4. Creditors were paid an amount less 2.5% discount.
5. The loan from Alex was paid in full

Required

Prepare

a) Realisation account (7 Marks)
b) Partner's Capital account (6 Marks)
c) Bank account (5 Marks)
d) Creditor's account (2 Marks)

QUESTION TWO

The accountant of Biomark traders balanced the cash book on 31st December 2017. The cash book showed an overdraft of Shs. 1,496,000. The debit balance of the bank reconciliation statement as at 31st December 2017 was 3,061,600

After inspecting the books the following issues were discovered,

1. Cheques totaling to Shs. 784,000 had been entered in the cash book, but the cheques were not presented to the bank as at 31st December 2017.
2. Payment for goods for Shs. 30,240 from debtors through electronic funds transfer (ETF) had not been entered in the cashbook.
3. A standing order for a credit purchase of a motor vehicle for Shs. 71,200 was processed through the bank on 28th December 2016 had not been entered into the cashbook.
4. Bank charges of Shs. 12,000 were included in the bank statement but not recorded cash book.
5. A cheque payment to a supplier for Shs. 200,320 was incorrectly entered in the cash book as a receipt.
6. A cheque for Shs. 16,000 received from a debtor and deposited with the bank was returned stamped. "Account closed".
7. Cheques received and entered in the cash book but not yet credited in the bank amounted to Shs. 1,880,000.

   Required

   a) Updated cah book as at 31st December 2017 (7 Marks)
   b) Bank reconciliation statement as at 31st December 2017 (3 Marks)

QUESTION THREE

A and B were in partnership sharing profits and losses equally. The statement of financial position of the partners as at 31st December 2015 was as follows:

Fixed assets:		
Land and Building		12,000,000
Motor vehicles		4,000,000
Furniture and fittings		1,500,000
		17,500,000
Current assets:		
Inventory	1,500,000	
Debtors	2,500,000	
Cash at bank	1,000,000	
	5,000,000	
Less: Current liabilities:		
Creditors	(2,500,000)	2,500,000
		20,000,000
Financed by:		
Capital accounts:		
A		10,000,000
B		8,000,000
Current accounts:		
A		1,500,000
B		500,000
		20,000,000

Additional information:

a. On 1st January 2016 the partners agreed to form a company AB Ltd. they acquired all the assets of the partnership except cash at bank at an agreed price of Shs 20,000,000. The purchase consideration was satisfied by the issue by AB Ltd. of 1,500,000 ordinary shares of shs 10 each at par fully paid and Shs 5,000,000 paid by cheque.

b. AB Ltd. was formed with ordinary share capital 5,000,000 at shs 10 each. AB Ltd. issued 35,000 ordinary shares at shs 10 each on 1st January 2016. The issue was immediately fully subscribed, the full issue price being paid on application.

c. AB Ltd. revalued the assets taken over as under:

Land and buildings	15,000,000
Motor vehicles	3,500,000
Furniture and fittings	1,000,000
Inventory	1,000,000
Debtors	1,300,000

Required

Prepare

i. Realization account (3 Marks)

ii. Partners' capital accounts (3 Marks)

iii. Statement of financial position as at 1st January 2016 (4 Marks)

QUESTION FOUR

On 30th June 2014, the company's statement of financial position included the following values for non- current assets:

	Cost	Accumulated depreciation
Land and buildings	40,000,000	Nil
Plant and machinery	36,000,000	16,000,000
Motor vehicles	12,000,000	4,000,000
Furniture and fittings	2,000,000	800,000

The company's policy is to charge depreciation at the following rates:

Asset	Rate
Land and Building	Nil
Plant and equipment	10% on cost
Motor vehicle	15% on cost
Furniture and fittings	20% on reducing balance basis

A full years charge is made in the year of acquisition, none in the year of disposal.

During the year ended 30th June 2015, the following took place:

1. The company decided to adopt a policy of revaluing its land and buildings. Valuing sure consultants were engaged for this purpose and revalued the land and building at Shs. 60,000,000.
2. A new item of plant and machinery was purchased for Shs. 10,000,000. Part of the purchase was settled by exchanging another item of plant at an agreed value for Shs. 4,500,000. The plant which was given in part exchange had cost shs. 6,000,000 on 1st July 2012.
3. Included in the furniture and fittings is an item which had originally cost Shs. 300,000 and which is already fully depreciated and not expected to realize much from the disposal.
4. Imported a lorry from Mitsubishi Motor Corporation Japan at a cost of 3,000,000 and incurred a further cost Shs. 1,500,000 on customs duty and clearing the lorry.

Required

Property, plant and equipment movement schedule for the year ended 30th June 2015. (10 Mark)

QUESTION FIVE

Double N traders commence trading on 1st January 2017. During the two years ended 31st December 2017 and 31st December 2018 the following balances were written off to bad debts on the stated dates.

31st August 2017	J. Onyaro	425,000
30th September 2017	S. Mwomboza	700,000
28th February 2018	K. Munyi	900,000
31st August 2018	C. Owayo	300,000
31st October 2018	J. Timberlake	1,250,000

On 31st December 2017. Total debtors amounted to Shs. 20,250,000. It was decided to make an allowance of doubtful debts of 5% on debtors. On 31st December 2018 the debtors balance stood at Shs. 23,650,000. Allowances for doubtful debts were maintained at 5% of debtors.

The accountant for Double N traders did not provide for bad debts neither did he recognize bad debts expense in the two years.

Required.

a) Debtors account at the end of each year (4 Marks)
b) Bad debts account (3 Marks)
c) Allowances for bad debts account (3 Marks)

QUESTION SIX

The following transactions relate to Musongari Company, for the month of February 2004.

Date	Purchases	Sold (Issued)	Balance
2/2/2004	1000 units @ Kshs 10		1000 units
5/2/2004	5000 units @ Kshs 12		6000 units
9/2/2004		3000 units	3000 units
15/2/2004	4000 units @ Kshs 14		7000 units
20/2/2004		1000 units	6000 units
24/2/2004		2000 units	4000 units
26/2/2004		3000 units	1000 units
28/2/2004	5000 units @ Kshs 13		6000 units

Determine the cost of goods sold during the month and the ending inventory as at the end of the month of February using:

(i) FIFO Periodic Inventory System (5 Marks)
(ii) LIFO Periodic Inventory System (5 Marks)