PIONEER INTERNATIONAL UNIVERSITY

Powered by Intellect, Driven by Values.

UNIVERSITY EXAMINATIONS

ACADEMIC YEAR: 2021/2022 **SEMESTER:** SEPT-DEC

UNIT CODE: ACCT 2110 **UNIT NAME:** ACCOUNTING FOR ASSETS

DATE: DECEMBER 2021 **TIME:** 2 HOURS

Instructions: Answer question **ONE compulsory** and any **other two** questions

QUESTION ONE

The following trial balances were extracted from the books of TR Co. Ltd.

	31 March 1998	**31 March 1999**
	Sh. '000'	**Sh. '000'**
6% Debentures (2030 A.D)	30,000	20,000
Ordinary Shares of Sh.5 each	20,000	45,000
Share premium account	-	15,000
Sales	-	107,006
Creditors	7,520	9,050
Reserves and retained profit	35,963	18,963
Corporation tax (due 1 Jan 1996)	4,200	-
Provision for bad and doubtful debts	9	11
Provision for depreciation – Freehold buildings	4,023	5,164
- Machinery and motor vehicles	9,671	10,732
Profit on redemption of debentures	-	1,700
Profit on sale of machinery	-	95
Proposed final dividend	1,567	-
Provision for maintenance of properties	325	268
Bank overdraft	85	-
	113,363	232,989
Opening stock	8,853	10,625
Cost of sales	-	95,042
Debtors	9,577	12,024
Trade loans to customers	3,750	4,950
Freehold land at cost	13,200	16,200
Freehold buildings at cost	56,075	58,760
Machinery and motor vehicles	18,422	20,652
Investment at cost	3,486	4,024
Interim dividend paid	-	1,383
Balance at bank _	-	9,329
	113,363	232,989

The following transactions took place during the year:

(1) There was a bonus issue of shares of one for one to the ordinary shareholders, followed by a rights issue of one share for every eight shares held at a price of Sh.20 per share.

(2) The freehold land was re-valued from Sh.13,200,000 to Sh.16,200,000, the increase in valuation being transferred to reserves.

(3) Machinery costing Sh.2,700,000 and with a book value of Sh.600,000 was sold at a profit of sh.95,000.

(4) Part of the debentures were redeemed at a profit of Sh1,700,000.

Required:

(a) Cash flow statement for the year ended 31 March, 1999 (25marks)

b) Explain the uses of cash flow statement (5marks)

(Total 30 marks)

QUESTION TWO

(a) **(i) What** does the IFRS 3 states about treatment of goodwill (4mks)

(ii) What are factors that determine goodwill (8mks)

(b) XYZ Ltd. acquires ABC Ltd. as at 31st January, 2020. At that date the assets and liabilities of Imani Ltd. were as follows:

Item	**Shs.**
Land and Building	10,000,000.00
Motor Vehicle	3,000,000.00
Furniture and Fittings	800,000.00
Debtors	200,000.00
Cash at Bank / (Bank Overdraft)	(200,000.00)
Creditors	1,850,000.00
Bank Loans	1,000,000.00

Pendo Ltd. paid a consideration of Shs. 25,000,000.00 and acquired 80% of Imani Ltd.

Required:

i) Value of Net assets (4mks)

ii) Goodwill on acquisition of Imani Ltd. (4mks)

(Total 20 marks)

QUESTION THREE

1. The company incurred the following costs in acquiring new equipment

	Sh.'000
Invoice price of equipment'	140,000
Freight	10,500
Installation	10,500
Insurance in transit	14,000
	175,000

2. Property, plant and equipment disposed of during the year were as follows:
In addition, a new truck was acquired by trading in an old truck at an agreed value of Sh.10.5 million and making an additional cash payment of Sh.15 million. The old truck had cost Sh.15 million in July 2000.

3. The directors recommended a reclassification of some items of equipment to furniture. These items had cost Sh.15 million and had accumulated depreciation of Sh.3 million.

4. The company's policy is to charge depreciation on a straight line basis at the following rates:

Equipment	20% per annum
Furniture	12 ½ % per annum
Motor vehicles	30 % per annum

5. A full year's depreciation was charged in the year of acquisition but none in the year of disposal.

Required:

(a) Explain two other methods of charging depreciation that Kimwa construction Ltd could have used. (4 marks)

(b) A property, plant and equipment disposal account for the year ended 30 June 2004. (4 marks)

(c) A property, plant and equipment movement Schedule for the year ended 30 June 2004 (12 marks)

(Total 20 marks)

QUESTION FOUR

a) Explain briefly the following types of financial instrument risks

i) Market risk [2mks]

ii) Currency risk [2mks]

iii) Interest risk [2mks]

iv) Price risk [2mks]

v) Credit risk [2mks]

A business starts on 1st January 2002 and its financial year end is 31st December annually. A table of the debtors, the bad debts written off and the estimated bad debts at the rate of 2% of debtors at th e end of each year is now given below;

Year to 31st December	Debtors at the end of year after ad debts written off	Bad debtors written off	Provision for doubtful debts at 2%
2002	600,000	42,300	12,000
2003	700,000	51,000	14,000
2004	775,000	60,400	15,500
2005	650,000	61,000	13,000

Prepare the following accounts:

i) Bad debts (3marks)
ii) Provision for doubtful debts (3marks)
iii) Income statement extract for the year ended 31st December (2marks)
iv) Statement of financial position as at 31st December (2marks)

(Total 20 marks)