



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 312: ACCOUNTING FOR ASSETS

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Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Park-place traders makes some sales of Kshs. 800,000 with discount terms of $\frac{3}{10}, \frac{n}{30}$. Some payments of Shs. 600,000 were received within the discount period, while the rest were received after the discount period.

Required:

Show the relevant journal entries necessary to record the transactions, using each of the following methods separately:

- i the Gross method
 - ii the Net method **(6 marks)**
- b) On 1st Jan 2005, CUEA bought two buses KBA and KBC for Shs. 4,000,000 and Shs. 5,000, 000 respectively. On 31st March 2006, Another bus KBF was acquired in exchange for Shs. 3,200,000 cash. On 30th June 2007, KBA was involved in an accident which declared it a write-off, consequently the insurance company compensated CUEA with Sh. 2,500,000 cheque. The buses depreciate at 12½ % p.a reducing balance.

Required:

Show how the following accounts would appear at the end of each of the year 2005, 2006 and 2007:

- i Buses account
- ii Provision for depreciation on buses account
- iii Buses disposal account
- iv Profit & loss account extracts
- v Balance sheet extracts **(9 marks)**
- c) State the explain five suggested measures intended to ensure proper internal control of cash transactions and cash balances. **(5 marks)**
- d) Distinguish between patents, copyrights and franchises and clearly state the accounting treatment of each in a firm's accounting records **(6 marks)**
- e) Clearly explain the difference between the following terminologies:
 - (i) Trade receivables V^s Non-trade receivables **(2 marks)**
 - (ii) Accounts receivables V^s Notes receivables **(2 marks)**

Q2. The following financial statements were prepared for CUEA Ltd at the end of its first year operations

CUEA Ltd

Profit & Loss account for the year ended 31st March 2010

	Kshs.	Kshs.
Turnover		750,000
Gross profit		400,000
Distribution expenses	70,000	
Operating Profit	87,500	157,500

Administrative expenses		192,500
Interest expenses		25,000
Profit before tax		167,500
Taxation: - current	37,600	
Deferred	6,000	43,600
Profit after tax		123,900
Dividends – Interim paid	30,000	
Final proposed	7,500	37,500
Retained profit for the year		86,400

Balance sheet as at 31st March 2010

	Kshs	Kshs	Kshs
Fixed Assets = Land & B/dgs at cost			180,00
Other fixed assets at NBV		260,000	
Current Assets = Stocks		295,000	
Prepaid expenses		6,000	
Net Debtors		84,400	
Bank		<u>15,000</u>	
		402,400	
Current Liabilities : Current portion			
of long-term debt	62,500		
Creditors	49,000		
Accrued expenses	9,000		
Taxation	12,000		
Dividends	30,000	162,500	
Net current assets			<u>2,39,900</u>

	679,900
Financed By:	
Shareholders Funds	400,000
(20,000 ordinary shares of Ksh 20 par)	
Profit & loss account	<u>86,400</u>
	486,400
	187,500
Deferred tax	60,000
	679,900

Additional Information

- i The company was incorporated on 1st April 2009 by an issue for cash of 20,000 ordinary shares of Sh. 20 each par value. It commenced operations immediately.
- ii An amount of Ksh. 15,000, which is included in creditors, related to acquisition of fixtures & fittings. The balance is in respect of trade creditors.
- iii The longterm loan was borrowed from the bank on 1st April 2009. It is repayable at the end of each year in five equal instalments of Shs. 62,500, plus interest at 8% per annum reducing balance.
- iv The cost of fixed assets acquired in the year is Shs. 480,000. There were no deposits during the year.

Required

- a) Prepare a cash flow statement for the company for the year ended 31st March 2010. Show all your working clearly. **(16 marks)**
 - b) Comment on the position revealed by the cash flow statement Prepared above, sharing clearly the difference between the change in cash positions and the profit generated over a period of time. **(4 marks)**
- Q3. a) Briefly explain three objectives of stock-taking **(3 marks)**

- b) Distinguish between perpetual and periodic method of inventory taking. **(3 marks)**
- c) State three objectives of cash management **(3 marks)**
- d) The following information relates to the debtors of West traders Ltd for each of the year shown:

Year	Receivable at end Of year (After bad Debts)	Bad Debts written off in the year	Allowance for uncollectible Doubtful Debts
2005	800,000	142,300	33,000
2006	700,000	251,000	46,500
2007	900,000	360,000	25,100

Required:

Show how the following accounts would appear for each of the years 2005-2007:

- i Bad debts a/c
- ii Allowances for Doubtful debts a/c
- iii Income statement extracts
- iv Balance sheet extracts **(12 marks)**
- Q4. a) What are marketable securities? **(1 mark)**
- b) Differentiate between debt securities and Equity securities **(2 marks)**
- c) Clearly state and explain five reasons why companies interest in marketable securities of other companies. **(5 marks)**

- d) Briefly explain the meaning of the following marketable securities and state the following treatment of each:-
- i securities –held-to-maturity (3 marks)
 - ii securities-available-for-sale (3 marks)
 - iii trading securities (3 marks)
 - iv Equity method securities (3 marks)

END