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MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 312: ACCOUNTING FOR ASSETS

Date: DECEMBER 2018	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) Park – Place traders make some sales of Kshs. 800,000 with discount terms of $3/10, n/30$. 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 above transactions, using each of the following methods separately:

i) The Gross method

ii) The Net method. **(6 marks)**

b) On 1st January 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 2012, KBA was involved in an accident which declared it a write-off, consequently the insurance company compensated CUEA with Shs. 2,500,000 by 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 2010, 2011 and 2012:

i) Buses Account
ii) Provision for depreciation on buses account
iii) Buses disposal account
iv) Profit and loss account extracts
v) Balance sheet extracts **(9 marks)**

c) State and 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 Vs Non-trade receivables **(2 marks)**
ii) Accounts receivables Vs Notes receivables **(2 marks)**

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

CUEA Ltd
Profit and Loss Account for the year ended 31st March 2010

	Kshs.	Kshs.
Turnover		750,000
COGS		400,000
Gross profit		350,000
Distribution expenses	70,000	
Administrative expenses	87,500	157,500
Operating profit		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 & Bldgs at cost			180,000
Other fixed assets at NBV			260,000

				440,000
Current Assets:	Stocks		295,000	
	Prepaid expenses		6,000	
	Net debtors		86,400	
	Bank		15,000	
			402,400	
Current liabilities:	Current portion of longterm debt	62,500		
	Creditors	49,000		
	Accrued expenses	9,000		
	Taxation	12,000		
	Dividends	30,000	162,500	
Net current assets				239,900
				679,900
Finance by:				
Shareholders' funds				400,000
(20,000 ordinary shares of Sh. 20 Par)				
Profit and loss account				86,400
				486,400
Longterm debt				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, relates to acquisition of fixtures and fittings. The balance is in respect of trade creditors.

iii) The long term loan was borrowed from the bank on 1st April 2009. It is repayable at the end of each year in five equal installments 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 disposals during the year.

Required:

a) Prepare a cash flow statement for the company for the year ended 31st March 2010. Show all your workings clearly. **(16 marks)**

b) Comment on the position revealed by the cash flow statement prepared above, showing 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. **(2 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 years shown:

Year	**Receivables at end of year (After Bad Debts)**	**Bad Debts written off in the year**	**Allowance for uncollectible doubtful debts**
2005	600,000	42,300	13,000
2006	700,000	51,000	16,500
2007	800,000	60,400	15,100

Required:

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

i) Bad debts accounts
ii) Allowance for doubtful debts account
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 invest in marketable securities of other companies. **(5 marks)**

d) Briefly explain the meaning of the following marketable securities and state the accounting 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