



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 312: ACCOUNTING FOR ASSETS

Date: APRIL 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Park – Place traders made some sales of Kshs. 1,000,000 with discount terms of $\frac{3}{10}, n/30$. Some payments of Shs. 700,000 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 2015, CUEA bought two buses KBA and KCA for Shs. 5,000,000 and Shs. 6,000,000 respectively. On 31st March 2016, another bus KDF was acquired in exchange for Shs. 4,200,000 cash. On 30th June 2017, KBA was involved in an accident and it was declared a write-off, consequently the insurance company compensated CUEA with Shs. 3,500,000 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 2015, 2016 and 2017:

- 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		<u>400,000</u>
Gross profit		350,000
Distribution expenses	70,000	
Administrative expenses	87,500	<u>157,500</u>
Operating profit		192,500
Interest expenses		<u>25,000</u>
Profit before tax		167,500
Taxation – Current	37,600	
Deferred	<u>6,000</u>	<u>43,600</u>
Profit after tax		123,900
Dividends – Interim paid	30,000	
- Final proposed	<u>7,500</u>	<u>37,500</u>
Retained profit for the year		<u>86,400</u>

Balance sheet as at 31st March 2010

	Kshs.	Kshs.	Kshs.
Fixed Assets: Land & Bldgs at cost			180,000
Other fixed assets at NBV			<u>260,000</u>
			440,000
Current Assets: Stocks		295,000	
Prepaid expenses		6,000	
Net debtors		86,400	
Bank		<u>15,000</u>	
		402,400	
Current liabilities: Current portion of longterm debt	62,500		
Creditors	49,000		
Accrued expenses	9,000		
Taxation	12,000		
Dividends	30,000	<u>162,500</u>	
Net current assets			<u>239,900</u>
			<u>679,900</u>
Finance by:			
Shareholders' funds			400,000
(20,000 ordinary shares of Sh. 20 Par)			
Profit and loss account			<u>86,400</u>
			486,400
Longterm debt			187,500
Deferred tax			<u>60,000</u>
			<u>679,900</u>

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
2015	700,000	62,300	23,000
2016	800,000	81,000	46,500
2017	900,000	70,400	35,100

Required:

Show how the following accounts would appear for each of the years 2015 – 2017:

- 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