

**COOPERATIVE UNIVERSITY OF TECHNOLOGY**  
**2018/2019 ACADEMIC YEAR**  
**YEAR TWO SEMESTER ONE EXAMINATION FOR THE DEGREE OF**  
**BACHELOR OF COOPERATIVE BUSINESS**

**HBC 2202 INTERMEDIATE ACCOUNTING I**

**DATE: August 2019**

**TIME 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.**

**QUESTION 1**

(a) The details financial statements of X Ltd for the year ended 30 September 2018 was as follows.

**Statement of financial position as at 30 September**

	2018	2017
	Shs 'm'	Shs 'm'
Assets		
Property, plant and equipment	1,280	940
Intangible assets	285	125
Total non-current assets	1,565	1,065
Current assets		
Inventories	480	510
Trade receivables	270	380
Bank	80	90
Total current assets	830	980
Total assets	2,395	2,045
Equity and liabilities		
Equity		
Equity shares of 25 cents each	500	300
Share premium	150	85
Revaluation reserve	60	25
Retained earnings	950	965
<b>Total equity</b>	<b>1,660</b>	<b>1,375</b>
Non-current liabilities		
9% loan note	282	-
Deferred tax	18	25
Total non-current liabilities	300	25

Current liabilities		
Trade payables	350	555
Bank overdraft	25	40
Current tax payable	60	50
Total current liabilities	435	645
Total equity and liabilities	2,395	2,045

**Statement of profit or loss for the year ending 30 September 2018**

	Shs 'm'
Revenue	1,397
Cost of sales	(1,110)
Gross profit	287
Operating expenses	(125)
Finance costs	(40)
Investment income	20
Profit before tax	142
Income tax expense	(57)
Profit after tax	85

**Additional information:**

- (i) Included in the property, plant and equipment (PPE) is the revaluation reserves of Shs.35m of revaluation carried out during the year.
- (ii) Depreciation of PPE of Shs.260m was charged during the year in the statement of comprehensive income.
- (iii) Amortization of intangible assets during the year amounted to Shs.50m.
- (iv) Dividends of 5 cents per share was paid on 20 September 2018

**Required:**

Prepare a statement of cash flows for the year ending 30 September 2018 **(20 marks)**

(b) Define the term constructive assets **(5 marks)**

(c) Describe the accounting standards that regulate accounting for assets **(5 marks)**

**QUESTION 2**

- a. i. Define the term goodwill **(1 marks)**
- ii. Co. A on 1<sup>st</sup> April 2019 acquired Co. B for Kshs.90M and at the time of acquisition Co. B had the following assets:

	Market values	NBV
<b>Operating assets</b>	Shs.	Shs.
Land and Buildings	20 M	15M
Plant and Equipment	40 M	45M
Vehicles	15 M	18 M

Furniture and Fittings	7 M	8 M
Patents	2 M	2 M
<b>Total</b>	<b>84 M</b>	<b>88 M</b>

Compute the value of goodwill (2 mark)

- b. Describe the criteria applicable for determining whether to capitalize development cost or to expense it. (3 marks)
- c. The trial balance as at 31<sup>st</sup> March, 2019 of General Traders displayed the following fixed assets cost: Free hold land Sh.70 million, Buildings Sh.60 million, Plant & machinery Sh.10 million, Motor vehicles Sh.5 million. It also displayed accumulated depreciation of the above fixed assets as follows: Buildings Sh.15 million, Plant & machinery Sh.4 million and Motor vehicles Sh.1.9 million.

Additional information indicated:

- Buildings were depreciated at 2% per annum straight line and new buildings were bought for Kshs.6 million while old ones were disposed for Kshs.3 million although they had originally cost Kshs.4 million and had accumulated depreciation of Kshs.2.8 million.
- Plant & machinery had a useful life of 10 years, residual value of 2 million and are to be depreciated on a straight line basis.
- Vehicles were depreciated at 20% declining balance basis. Some old vehicles were disposed for Kshs.3 million although they originally cost Kshs.5 million and had accumulated depreciation of Kshs.800,000. The disposed vehicles were replaced with new ones costing Kshs.6 million.
- Land was revalued to Kshs.80 million during the year.

**Required:** Prepare a non-current asset movement schedule at 31<sup>st</sup> March, 2019 (14 marks)

### QUESTION 3

- (a) Xenon Inc. sold merchandise to Oxide Enterprises on 1<sup>st</sup> January 2019 for Sh.4 million on the following terms:

Trade discount of:     10% for purchases ranging Sh.100,000 to Sh.500,000  
                                   20% for purchases ranging between Sh.500,001 to sh.2,000,000  
                                   30% for purchases ranging between Sh.2,000,001 to Sh. 4,500,000  
                                   & 40% for purchases of over Sh.4,500.000

Cash Discount of:     3/10, n/90

On 10<sup>th</sup> January 2019, Oxide Enterprises paid Sh.2 million for the purchase while the remainder was paid for on 28<sup>th</sup> February 2010.

**Required:** Prepare journal entries in the books of Xenon Inc. based on the above information under gross and net methods. (4 marks)

- (b) Suppose the trial balance extract of KLM showed accounts receivables amounting to Kshs.800,000 and provision for doubtful debts of Kshs.40,000 at the beginning of year 2009. The entity has a policy of estimating bad debts expense to be 4% of the credit sales.

The additional information attached to the trial balance indicated that during the year 2008: credit sales amounted to Sh.3 million while cash collections amounted to Sh.2 million. Unpaid (bounced) cheques amounted to Sh.50,000 and bad debts written off amounted to Sh.80,000 while sales returns and discount allowed amounted to Sh.15,000 and 28,000 respectively. The closing provision for doubtful debts amounted to Sh.60,000 and that credit purchases was Sh.2.5 million.

**Required:** Prepare the debtors and provision for doubtful debts and the journal entries for the bad debts expense, bad debts written off and the income statement adjustment. **(6 marks)**

- (c) In take over bid, A Ltd acquired all assets of B Ltd at a lump sum cost of Kshs.36M. The values of the various assets acquired were as follows;

	<b>Market values</b>	<b>NBV</b>
<b>Operating assets</b>	<b>Shs.</b>	<b>Shs.</b>
Land and Buildings	12 M	10M
Plant and Equipment	6 M	5M
Vehicles	6 M	4.5M
Furniture and Fittings	1.5 M	1M
<b>Total</b>	<b>25.5 M</b>	<b>20.5M</b>

**Required**

- i. Determine the cost to allocate to each asset item. **(4 marks)**
- ii. Record the acquisition using J.E assuming an installment contract purchase **(2marks)**

- (d) Describe the classification of investments **(4 marks)**

**Question 4**

- (a) Explain the external and internal indicators of asset impairment **(8 marks)**

(b) Z ltd had been loss making for the last 3 years a trend expected to continue. 5 years ago, the company bought non-current assets at Sh.2.8 million whose current carrying value is Sh.1.7 million and is expected to generate cash flows of Sh.425,000, Sh.530,000, Sh.640,000 and Sh.650,000 for the next 4 years. The non-current assets have a gross selling price of Sh.1.05 million and selling costs of Sh.50,000. if the discounting rate prevailing in the market is 12%.

**Required:** Determine whether impairment has occurred and if so, journalize the entry. **(12 marks)**

and perpetual systems of inventory and relevant ledger accounts **(10 marks)**

**Question 5**

A Government grant was received by NCC towards the purchase of laboratory equipment costing Ksh.20 million and the grant amounted to Ksh.15 million. The equipment was expected to have a useful life of 5 years and to be depreciated on a sum of the years digit basis after considering scrap value of Ksh.1 M.

**Required:**

- (a) Prepare the relevant ledger accounts and show the financial statement extracts for each of the first 5 years using the off-setting accounting treatments for Government grants under IAS 20. **(16 marks)**
- (b) Describe revenue based grants and their accounting treatment **(4 marks)**