

**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF SCIENCE IN SUPPLY CHAIN AND OPERATIONS MANAGEMENT**  
**END OF SEMESTER EXAMINATION**  
**SCM 3204: ACCOUNTING FOR ASSETS AND LIABILITIES**

DATE: 13<sup>th</sup> December 2023

Time: 08:00-10:00

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE (30 marks)**

- (i) The following is the trial balance of Madaraka Ltd at 31<sup>st</sup> March 2021.

	KES'000'	KES'000'
Issued share capital (ordinary shares of KES 1 each)		42,000
Leasehold properties, at cost	75,000	
Motor vans, at cost (used for distribution)	2,500	
Provision for depreciation on motor vans to 31 March 2020		1,000
Administration expenses	7,650	
Distribution expenses	10,000	
Stock, 31 March 2020	12,000	
Purchases	138,750	
Sales		206,500
Directors' remuneration (administrative)	25,000	
Rents received		3,600
Investments at cost	6,750	
Investment income		340
7% Debentures		15,000
Debenture interest	1,050	
Bank interest	162	
Bank overdraft		730
Debtors and creditors	31,000	24,100
Interim dividend paid	1,260	
Profit and loss account, 31 March 2020		17,852
	<u>311,122</u>	<u>311,122</u>

*You ascertain the following:*

- All the motor vans were purchased on 1 April 2018. Depreciation has been, and is to be, provided at the rate of 20% per annum on cost from the date of purchase to the date of sale. On 31 March 2021 one van, which had cost KES900,000 was sold for KES 550,000 as part settlement of the price of KES800,000 of a new van, but no entries with regard to these transactions were made in the books.

- The estimated corporation tax liability for the year to 31 March 2021 is KES 12,700,000.
- Stock at the lower of cost or net realizable value on 31 March 2021 is KES16,700,000.

**Required:**

- Prepare Statement of Profit or Loss for the year ended 31 March 2021. **(14 marks)**
  - Prepare the statement of changes in equity for the year ended 31 March 2021 **(4 marks)**
  - Prepare the statement of financial position as at 31 March 2021. **(12 marks)**
- Total (30 marks)**

**QUESTION TWO**

- i) The following information relates to the disposal of two machines by Halwell:

	<i>Machine 1</i>	<i>Machine 2</i>
	Ksh	Ksh
Cost	120,000	100,000
Selling price	90,000	40,000
Profit/(loss) on sale	30,000	(20,000)

**Required:**

Calculate the accumulated depreciation for Machine 1 and 2. **(6 marks)**

- ii) Lydd purchased production machinery costing Ksh 100,000, having a useful life of 20 years and a residual value of Ksh 2,000. After six years' use the remaining useful life of the machinery is revised and estimated to be 19 years, with an unchanged residual value.

**Required:**

What is the annual depreciation charge on the machinery in year 7? **(3 marks)**

- iii) An entity has decided to adopt the revaluation model for the first time from 31 December 2016.

At that date, details relating to two properties were as follows:

*Asset at 31 December 2016: Carrying amount Fair value*

	<i>Ksh 000</i>	<i>Ksh 000</i>
Head office	10,200	10,800
Factory	7,875	7,500

**Required:**

Calculate the total gain to be recorded in the revaluation surplus at 31 December 2016? **(3 marks)**

- Using examples distinguish between **accruals and accruals concept**. **(5 marks)**
- Explain the concept of "subsequent measurement" as it relates to property, plant, and equipment (PPE) under International Accounting Standard 16 (IAS 16) and provide an example of how it is applied.

**Total (20 marks)**

### QUESTION THREE

- i) Stewart Co.'s beginning inventory and purchases during the year ended December 31, 2022, were as follows:

		Unit	Unit Cost	Total Cost
January 1	Inventory	1,000	Ksh 50.00	Ksh 50,000
March 10	Purchase	3,000	52.00	156,000
June 25	Sold 1,600 units			
August 30	Purchase	2,600	55.00	143,000
October 5	Sold 4,000 units			
November 26	Purchase	1,000	57.68	57,680
December 31	Sold 800 units			
Total		7,600		Ksh 406,680

#### Required:

Determine the cost of inventory on December 31, 2022, using the perpetual inventory system and each of the following inventory costing methods:

- a). first-in, first-out (10 marks)  
b). weighted average (round weighted average cost per unit to two decimal places) (5 marks)

- ii) Which TWO of the following are examples of biological assets, as defined in IAS 41 Agriculture? (2 marks)

- A. Sheep  
B. Harvested apples  
C. Wine  
D. Sugar cane

- iii) On 30 September 2023, Razor's closing inventory was counted and measured at its cost of Ksh 1,000,000. Some items of inventory which had cost Ksh 210,000 had been damaged in a flood (on 15 September 2023) and are not expected to achieve their normal selling price which is calculated to achieve a gross profit margin of 30%. The sale of these goods will be handled by an agent who sells them at 80% of the normal selling price and charges Razor a commission of 25%.

#### Required:

At what amount will the closing inventory of Razor be reported in its statement of financial position as at 30 September 2023? (3 marks)

**Total marks (20 marks)**

### QUESTION FOUR

- i) Which of the following could be classified as deferred development expenditure in M's statement of financial position as at 31 March 2021 according to IAS 38 Intangible Assets? (2 Marks)
- A. Ksh 120,000 spent on developing a prototype and testing a new type of propulsion system for trains. The project needs further work on it as the propulsion system is currently not viable.
- B. A payment of Ksh 50,000 to a local university's engineering faculty to research new environmentally friendly building techniques.

- C. Ksh 35,000 spent on consumer testing a new type of electric bicycle. The project is near completion and the product will probably be launched in the next 12 months. M is not yet certain that there is going to be a viable market for the finished product.
- D. Ksh 65,000 spent on developing a special type of new packaging for a new energy efficient light bulb. The packaging is expected to be used by M for many years and is expected to reduce M's distribution costs by Ksh 35,000 a year.

ii) Discuss the recognition criteria for development costs? **(4 marks)**

iii) Henna was incorporated on 1 January 2016. At 31 December 2016 the following costs had been incurred:

	Ksh
(1) Legal fees incurred in establishing the entity	80,000
(2) Customer lists purchased from a company that is no longer trading	100,000
(3) Goodwill created by the company	80,000
(4) Patents purchased for valuable consideration	70,000
(5) Costs incurred in developing patents used in products sold	60,000

**Required:**

What is the total cost of intangible assets to be recognised in the statement of financial position of Henna at 31 December 2016 in accordance with IAS 38 Intangible Assets? **(3 Marks)**

iv) Which TWO of the following conditions would prevent any amount of the development expenditure to which it relates from being recognised as an asset? **(2 Marks)**

- A. The development is incomplete
- B. The costs arising from the completed development are expected to exceed the benefits
- C. Funds are unlikely to be available to complete the development
- D. The development is expected to give rise to more than one product

v) RD's figures for research and development are as follows:

Research	Ksh 267,000
Development expenditure in the year	Ksh 215,000
Brought forward deferred development expenditure	Ksh 305,000
Written off deferred expenditure in the year	**

\*\* To be calculated.

At 31 December 2022 the balance carried forward for development expenditure was Ksh 375,000.

**Required:**

What amount will RD expense to profit or loss for research and development in 2022? **(3 marks)**

vi) New Designs Co is considering the following potential assets for inclusion in its statement of financial position.

**(6 marks)**

Indicate which of the items below should be recognised as intangible assets.

ITEM	Should be recognised as an Intangible Asset? YES or NO
Ksh 3m spent on a licence to operate a production facility for six years	
Ksh 3m paid to acquire the brand name Fast Designs	
Ksh 1m spent on the construction of a product prototype before its launch	
Ksh 2m paid as goodwill when acquiring Unique Co	

### QUESTION FIVE

- i) Noddy has a property included in its statement of financial position at a carrying amount of Ksh 2.75m. The property had been revalued during the year. If the property had not been revalued its carrying amount would only have been Ksh 1.25m.

Following a fire, an impairment review of the property has been undertaken and it is estimated that its recoverable amount is only Ksh 1m.

**Required:**

How much of the impairment loss should be recognised in other comprehensive income in accordance with IAS 36 Impairment of Assets? **(4 marks)**

- ii) The net assets of Fyngle, a cash generating unit, are:

	Ksh
Property, plant and equipment	200,000
Allocated goodwill	50,000
Product patent	20,000
Net current assets (at net realisable value)	30,000
	300,000

As a result of adverse publicity, Fyngle has a recoverable amount of only Ksh 200,000.

**Required:**

What would be the carrying amount of Fyngle's property, plant and equipment after the allocation of the impairment loss? **(6 marks)**

- iii) ABC Corporation, a manufacturing company, provides you with the following financial information for the year ended December 31, 2023. Prepare a cash flow statement for the year using the indirect method:

Net Income:	Ksh 200,000
Depreciation Expense:	Ksh 30,000
Increase in Accounts Receivable:	Ksh 20,000
Decrease in Inventory:	Ksh 15,000
Increase in Accounts Payable:	Ksh 10,000
Purchase of Property, Plant, and Equipment:	Ksh 60,000
Sale of Equipment:	Ksh 25,000
Interest Paid:	Ksh 5,000
Dividends Paid:	Ksh 15,000
The cash balance at the beginning of the year was:	Ksh 50,000

**Required:**

Prepare the statement of Cash as at 31 December 2023 in accordance with IAS 7 *Statement of Cash Flows*.

**(10 Marks)**