



STRATHMORE BUSINESS SCHOOL
BACHELOR OF SUPPLY CHAIN MANAGEMENT
END OF SEMESTER EXAMINATION
SCM 3204: ACCOUNTING FOR ASSETS AND LIABILITIES

DATE: Tuesday, 3rd December 2024

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

(20 MARKS)

On 1 January 2023, Beta Ltd began construction of a new headquarters building. The following costs related to the building were incurred during the year ended 31 December 2023:

Item	Amount (Ksh000)
Purchase of the land	8,000
Demolition costs for old structures on the site	400
Purchase of materials for the building	5,500
Employment costs (Note 1)	2,000
Production overheads related to construction (Note 2)	1,500
Allocated general administrative overheads	700
Architects' and consultants' fees directly related to the building	600
Costs of relocating staff to the new building	250
Costs for the official opening of the building	150
Interest on a loan used to finance the construction (Note 3)	1,000

Additional information

Note 1: The building was completed in the ten months ended 31 October 2023. Employment costs are for the ten months to 31 October 2023.

Note 2: The production overheads include an abnormal cost of Ksh150,000 related to repairs for unexpected structural damage during construction.

Note 3: Beta Ltd secured a Ksh10 million loan on 1 January 2023 with an interest rate of 9% per annum, which was used to finance part of the construction.

Note 4: The building has an expected useful life of 25 years, at which point it will be demolished and the land restored to its original condition. The cost of fulfilling this legal obligation is estimated at Ksh3 million. The present value of Ksh1 in 25 years at a discount rate of 7% is 0.184.

Required:

1. Calculate the amount that should be capitalized as the cost of the building. **(15 marks)**
2. Determine the depreciation expense for the first full year of use, assuming the building was put into use on 1 November 2023. **(5 marks)**

QUESTION TWO

(20 MARKS)

On 1st April 2020, Brian Box, who runs a logistics and supply chain business, purchased a delivery van on credit for KES 2,400,000. The van has an expected useful life of 4 years, and a residual value of KES 400,000. Using the reducing balance method of depreciation at a rate of 25% per annum, you are required to prepare the following for each of the next 4 years (31 March 2021, 2022, 2023, and 2024):

- i) The non-current asset account **(5 marks)**
- ii) The accumulated depreciation account **(5 marks)**
- iii) The statement of profit or loss (extract) **(5 marks)**
- iv) The statement of financial position (extract) **(5 marks)**

QUESTION THREE

(20 MARKS)

Bwilo Ltd has a financial year that ends on 31 December 2017. However, stocktaking is not completed until 10 January 2018. When the items in stock on that date are priced at cost, it is determined that the stock value amounts to KES 3,500,000. The following transactions occurred between 31 December 2017 and 10 January 2018:

1. Purchases made since 31 December 2017 amounted to KES 500,000 at cost.
2. Returns inwards since 31 December 2017 were KES 90,000 at selling price.
3. Sales since 31 December 2017 amounted to KES 1,200,000 at selling price.
4. The selling price includes a 25% mark-up on cost price.

You are required to:

- a) Calculate the stock in hand as of 31 December 2017, adjusting for transactions between 31 December 2017 and 10 January 2018. **(10 marks)**
- b) Show the necessary adjustments for purchases, sales, and returns inwards to convert the stock to the value as at 31 December 2017. **(10 marks)**

QUESTION FOUR

(20 MARKS)

The following information relates to Geofrost, a transport and logistics company, for the year ended 31 October 2017.

Extracts from the statement of profit or loss for the year ended 31 October 2017

	<i>Ksh '000</i>
Finance costs	(400)
Investment income	180
Profit before tax	15,000
Less tax	4,350
Profit for the year	10,650

Statement of financial position as at 31 October 2017

	<i>2017</i>	<i>2016</i>
	<i>Ksh 000s</i>	<i>Ksh 000s</i>
Assets		
Non-current assets	43,282	26,574
Current assets		
Inventory	3,560	9,635
Receivables	6,405	4,542
Cash	2,045	1,063
	12,010	15,240
Total assets	55,292	41,814
Equity and liabilities		
Capital and liabilities		
Ordinary share capital	19,365	17,496
Retained earnings	16,115	6,465
	35,480	23,961
Non-current liabilities		
Loan	8,000	10,300
Current liabilities		
Bank overdraft	1,230	429
Trade payables	7,562	4,364
Taxation	3,020	2,760
	11,812	7,553
Total equity and liabilities	55,292	41,814

Additional information:

1. Depreciation expense for the year was Ksh 4,658,000
2. Assets with a carrying value of Ksh 1,974,000 were disposed of at a profit of Ksh 720,000

Required:

Prepare the statement of cash flows for the year ended 31 October 2017 for Geofrost.

QUESTION FIVE**(20 MARKS)**

- a) Discuss the different types of liabilities that can arise in a supply chain context, focusing on the following aspects:
- i. Define liabilities and explain their importance in financial reporting for a supply chain business. **(5 marks)**
 - ii. Explain the difference between **current** and **non-current liabilities**, providing two examples of each within a supply chain business. **(6 marks)**
 - iii. Describe how contingent liabilities could impact a supply chain operation, providing a relevant example. **(4 marks)**
- b) Using examples distinguish between owner occupied and investment property as depicted in IAS 40 **(5 marks)**