



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

DATE: Wed, 17th April 2024

TIME: 15:30 – 17:30

Instructions

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

QUESTION ONE **(30 MARKS)**

- a) What are the three purposes of the IFRS *Conceptual Framework for Financial Reporting* (“Conceptual Framework”) is: **(6 Marks)**

b)

The following balances were extracted from the books of Waumini Ltd as at 30 September 2021:

	KES	KES
Ordinary shares of KES.20 each. Fully paid		600,000
8% preference shares KES.20 each. Fully paid		100,000
Share premium account		80,000
6% loan stock		100,000
Trade creditors		148,000
Trade debtors	330,000	
Sales		4,800,000
Purchases	4,220,000	
Discounts allowed	5,000	
Discounts received		13,000
Freehold buildings:		
At cost	500,000	
Provision for depreciation		50,000
Fixtures and fittings:		
At cost	640,000	
Provision for depreciation		256,000
Stock 1 October 2020	420,000	
Returns outwards		80,000
Establishment expenses	130,000	
Administration expenses	56,000	
Selling and distribution expenses	167,000	
Bad debts written off	4,000	

Provision for doubtful debts		18,000
Retained profit I October 2020		362,000
Goodwill	160,000	
Bank overdraft		25,000

The following additional information is available:

- Depreciation is provided annually on the cost of fixed assets held at the end of the financial year at the following rate:
 - Freehold buildings 20%
 - Fixtures and fittings 10%
- The trade debtors balance includes KES. 10,000 due from Musa who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
- The provision for doubtful debts as at 30 September 2021 is to be 5% of trade debtors
- Establishment expenses prepaid at 30 September 2021 amounted to KES. 4,000.
- Administration expenses accrued at 30 September 2021 amounted to KES.7.000.
- The company paid the interest on the loan stock for the year, ended 30 September 2020 on 30 October 2021.
- Closing stock was valued at KES. 560,000.
- It has been declared that the preference share dividend be paid and a dividend of 10% of the ordinary shares he paid.

Required:

- Statement of Profit or Loss and Other Comprehensive Income of Waumini ltd for the year ended 30 September 2021 **(12 marks)**
- Statement of Financial Position of Waumini Ltd as at 30 September 2021 **(12 marks)**

QUESTION TWO (20 MARKS)

You have been hired as a consultant for Abacus Ltd. The financial manager needs you to explain to the board of directors some key terminologies that appear in financial statements. You are required to use appropriate examples discuss the following terms.

- Investment property **(4 marks)**
- Owner-occupied property **(4 marks)**
- Operating activities **(4 marks)**
- Investing activities **(4 marks)**
- Financing activities **(4 marks)**

QUESTION THREE (20 MARKS)

- 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)**
 - 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
 - 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) Outline the **SIX** recognition steps for development costs? **(6 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. **(4 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 FOUR

(20 MARKS)

- a) Who are the users of external financial statements, what information do they require and why? **(10 Marks)**
- b) Jabez 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 Flows as at 31 December 2023 in accordance with IAS 7. **(10 Marks)**

QUESTION FIVE**(20 MARKS)**

- 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		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 (FIFO) **(10 marks)**
- b). Weighted Average (round weighted average cost per unit to two decimal places) **(10 marks)**