



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

Date: 30th November 2022

Time: 2 Hours

Instructions

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

QUESTION ONE

Part A

Using the two fundamental qualitative characteristics and the four enhancing characteristics, critically appraise what makes financial information useful for decision making **(10 Marks)**

Part B

The following is an extract from the financial statements of Carly on 31 December 2014.
Property, plant and equipment:

	Land and buildings Ksh	Plant and equipment Ksh	Computers Ksh	Total Ksh
Cost				
On 31 December 2014	1,500,000	340,500	617,800	2,458,300
Accumulated depreciation				
On 31 December 2014	600,000	125,900	505,800	1,231,700
Carrying amount				
On 31 December 2014	900,000	214,600	112,000	1,226,600

Accounting policies

Depreciation

Depreciation is provided at the following rates.

- | | |
|------------------------|--|
| On land and buildings | 2% per annum straight line on buildings only |
| On plant and equipment | 25% reducing balance |
| On computers | 33.33% per annum straight line |

During 2015 the following transactions took place:

1. On 31 December the land and buildings were revalued to Ksh. 1,750,000. Of this amount, Ksh. 650,000 related to the land (which had originally cost Ksh. 500,000). The remaining useful life of the buildings was assessed as 40 years.

2. A machine which had cost Ksh. 80,000 and had accumulated depreciation of Ksh. 57,000 at the start of the year was sold for Ksh. 25,000 in the first week of the year.
3. A new machine was purchased on 31 March 2015. The following costs were incurred:

	Ksh
Purchase price, before discount, inclusive of reclaimable sales tax of Ksh 3,000	20,000
Trade discount	1,000
Delivery costs	500
Installation costs	1,050
Interest on loan taken out to finance the purchase	300

4. On 1 January it was decided to change the method of providing depreciation on computer equipment from the existing method to 40% reducing balance.

Required:

Produce the movement schedule of property, plant and equipment as it would appear in the financial Statements of Carly for the year ended 31 December 2015. **(20 Marks)**

TOTAL: 30 MARKS

QUESTION TWO

The details of investment extracted from the books of Finance Limited for the year ended June 30, 2009 show the following:

	Date of Purchase	Quantity	Cost Ksh. '000'	Market price Ksh '000'	Date of Maturity
Shares in Alpha Limited	01-Oct-08	18,000	441	576	N/A
Shares in Beta Limited	01-Nov-08	24,500	1,960	1,911	N/A
14% Debentures in Gamma Ltd (face value - Ksh.5,000)	01-Jul-08	1,800	9,090	9,360	30-Jun-11
16% Debentures in Theta Ltd (face value - Ksh.5,000)	01-Jan-09	650	3,185	N/A	31-Dec-11

The company is aware of the fact that it needs to apply IFRSs on the above investments. However, due to inadequate knowledge of the requirements of the Standard, the accountant has approached you for an advice. He informs you that the investment made in the shares of Alpha Limited was with the intention of making short-term gain in expectation of upward momentum in stock market activity, whereas the shares in Beta Limited are high dividend-yielding and the company intends to hold it for the long-term. The debentures in Gamma Limited were also acquired with the intention of short-term profit making. However, the company later changed its intention and now wishes to hold it till maturity.

The debentures in Theta Limited are acquired with a firm intention to hold these till maturities. Both these debentures are to be redeemed at their face values. The coupon payments are made on yearly basis on June 30 and December 31. The original effective rate of interest on debentures of Gamma Limited is 13.58% while on debentures of Theta Limited is 16.91%.

Required:

- i. Advise the accountant about the classification of above investments in the books of the company in accordance with the IFRSs along with reasons. **(8 Marks)**
- ii. State the amount at which each of the above investments will be carried in the statement of financial position as at June 30, 2009 (definitions of various categories of financial assets as per IFRSs are not required). **(6 Marks)**
- iii. Calculate the impact to be reflected in the 'statement of profit or loss' or 'other comprehensive income' for the year ended June 30, 2009. **(6 Marks)**

TOTAL: 20 MARKS

QUESTION THREE

You have been provided with the following information:

EMMA CO

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

	Ksh '000
Revenue	2,553
Cost of sales	(1,814)
Gross profit	739
Other income: interest received	25
Distribution costs	(125)
Administrative expenses	(264)
Finance costs	(75)
Profit before tax	300
Income tax expense	(140)
Profit for the year	160

EMMA CO
STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER

	2021	2020
	Ksh '000	Ksh '000
Assets		
Non-current assets		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	–	25
Current assets		
Inventories	150	102
Receivables	390	315
Short-term investments	50	–
Cash in hand	2	1
Total assets	1,222	948
Equity and liabilities		
Equity		
Share capital (Ksh 1 ordinary shares)	200	150
Share premium account	160	150
Revaluation surplus	100	91
Retained earnings	260	180
Non-current liabilities		
Long-term loan	170	50
Current liabilities		
Trade payables	127	119
Bank overdraft	85	98
Taxation	120	110
Total equity and liabilities	1,222	948

The following information is available.

- (a) The proceeds of the sale of non-current asset investments amounted to Ksh 30,000.
 (b) Fixtures and fittings, with an original cost of Ksh 85,000 and a net book value of Ksh 45,000, were sold for Ksh 32,000 during the year.
 (c) The following information relates to property, plant and equipment.

	31.12.2021	31.12.2020
	Ksh '000	Ksh '000
Cost	720	595
Accumulated depreciation	340	290
Net book value	380	305

- (d) 50,000 Ksh 1 ordinary shares were issued during the year at a premium of 20c per share.
 (e) The short-term investments are highly liquid and are close to maturity.
 (f) Dividends of Ksh 80,000 were paid during the year.

Required

Prepare a statement of cash flows for the year to 31 December 2021 using the format laid out in IAS 7. **(Total: 20 Marks)**

QUESTION FOUR

Neza Ltd.'s beginning inventory and purchases during the year ended December 31, 2022, were as follows:

Date		Unit	Unit Cost	Total Cost
			Ksh	Ksh
Jan-01	Inventory	1,000	50	50,000
Mar-10	Purchase	3,000	52	156,000
Jun-25	Sold 1,600 units			
Aug-30	Purchase	2,600	55	143,000
Oct-05	Sold 4,000 units			
Nov-26	Purchase	1,000	58	57,680
Dec-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:
 - first-in, first-out (5 Marks)
 - last-in, first-out (5 Marks)
 - weighted average (5 Marks)
- Assume that during the fiscal year ended December 31, 2022, sales were Ksh 530,000 and the estimated gross profit rate was 36%. Estimate the ending inventory at December 31, 2022. (5 Marks)

TOTAL: 20 MARKS

QUESTION FIVE

Following information pertains to Mambo Ajab Limited (MAL):

(i) Intangible assets as at 30 June 2015 were as follows:

	Brands	Software	License
Useful life (years)	10	5	Indefinite
Cost	Ksh 200 million	Ksh 80 million	Ksh 15 million
Accumulated amortization	Ksh 40 million	Ksh 48 million	-

(ii) Details of expenses incurred on a project to improve MAL's existing production process are as under:

Period	Ksh. in million
Up to June 2015	20
20 July 2015 – March 2016	45

Expenses were incurred evenly during the above period. On 30 September 2015, it was established that the project is commercially viable. The new process became operational with effect from 1 April 2016 and it is anticipated that it will generate cost savings of Ksh. 10 million per annum for a period of 10 years.

(iii) On 1 August 2015, MAL entered into an agreement to acquire an ERP software which would replace its existing accounting software. The new software became operational on 1 April 2016. MAL incurred following expenditure in respect of the ERP software:

Description	Ksh in million
Purchase price (including 15% sales tax)	115
Training of staff (Not a direct cost)	2
Consultancy charges for implementation of ERP	5

ERP software has an estimated useful life of 15 years. However, MAL expects to use it for a period of 10 years. The existing accounting software has become redundant and is of no use for the company.

(iv) During the year ended 30 June 2016, MAL spent Ksh 10 million on development of a new brand. Useful life of the brand is estimated as ten years.

(v) The license appearing in MAL's books was issued by the government for an indefinite period. However, on 1 January 2016 the Government introduced a legislation under which the existing license would have to be renewed after ten years.

(vi) MAL uses cost model to value its intangible assets and amortises them on straight-line basis.

Required:

Prepare a note on "intangible assets" for inclusion in MAL's financial statements for the year ended 30 June 2016 in accordance with International Financial Reporting Standards.

(20 Marks)