# TECHNICAL UNIVERSITY OF MOMBASA

## *School of Business*

DEPARTMENT OF ACCOUNTING & FINANCE

DIPLOMA IN ACCOUNTANCY

**BAC 2207: ADVANCED ACCOUNTING I**

SPECIAL/SUPPLEMENTARY EXAMINATIONS

**SERIES:** JUNE/JULY 2015

**TIME:** 2 HOURS

**INSTRUCTIONS:**

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Five printed pages.***

**QUESTION 1 (Compulsory)**

a) The balancesheet of Barnes and Darwin at 31st March 2008 is as follows:

| | | | |
|---|---|---|---|
| **Fixed assets** | | | |
| Buildings | | | 51,000 |
| Fittings | | | 29,000 |
| | | | 80,000 |
| **Current assets** | | | |
| Stock | | 16,000 | |
| Debtors | | 5,000 | |
| | | 21,000 | |
| **Less current liabilities** | | | |
| Bank | 3,000 | | |
| Creditors | 8,000 | (11,000) | 10,000 |
| | | | **90,000** |
| | | | |
| Represented by: | | | |
| Capital: Barnes | | | 60,000 |
| Darwin | | | 30,000 |
| | | | **90,000** |

The partners share profits and losses: Barnes three fifths and Darwin two fifths. At the date of the above balance sheet, it was agreed to admit E fox who was to bring cash of sh. 25,000 into the firm as capital. The new profit and loss ratio would be Barnes, one half; Darwin, one third; and Fox, one sixth.

1. Barnes and Darwin agreed the following revaluation amounts prior to the admission of fox. Any goodwill arising is to remain in the ledger.

| | |
|---|---|
| Buildings | 55,000 |
| Fittings | 27,000 |
| Stock | 15,500 |
| Debtors | 4,800 |
| Goodwill | 12,000 |
| Accrued expenses (previously omitted) | 300 |

**Required:**

i) Prepare the journal entries to record the above. **(10 marks)**

ii) Prepare the balancesheet of the new firm. **(10 marks)**

iii) Show by journal entry how the necessary adjustment would be made if the partners agreed that goodwill should be written. **(10 marks)**

**QUESTION 2**

The estate of Kim was as follows, paying all the debts, funeral expenses and testamentary expenses

| | **Shs.** |
|---|---|
| Bank balance | 316,540 |
| Household furniture | 20,000 |
| Motor car | 15,000 |
| House | 200,000 |
| Building society deposit | 163,460 |
| Paintings | 100,000 |
| 12.5% Kenya mortgage bond | 150,000 |
| Plot at Kahawa – Wendani | 90,000 |
| | 1,055,000 |

His will provides for the following legacies:

1. To allow his widow Jane sh. 500,000 and his personal belongings.
2. To his sister Mary sh. 100,000
3. To his son Alex the plot at Kahawa Sukari and 56,000
4. To his daughter Lucy sh. 150,000 payable out of his loan account with East African Building Society.
5. To his friend Mwaura, his ordinary shares in Tembo SACCO.
6. To his brother Ken, sh. 150,000
7. To the local Gold Club 12.5% Kenyan mortgage bond.

- All the beneficiaries are of full age.
- Just before he died, Mr. Kim had sold his interest in Tembo SACCO for sh. 500,000 and all the amount due to him has been discharged.
- Mary and Alex had been killed in a road accident six months before KIM died. Mary is survived by her son Mark, White Alex is survived by his widow Alice and daughter Ann. Alex's will left the whole of his estate to his wife Alice.

**Required:**
Prepare a distribution account showing the final distribution of the estate. **(20 marks)**

**QUESTION 3**

a) Explain the priority in which debts are paid in the event of bankruptcy. (8 marks)

b) H. Peters commenced business on 1st January 2002 with capital of sh. 400,000. His profits for 3 years were sh. 190,000, he did not prepare proper accounts for the next two years. His drawings averaged sh. 40,000 per annum.

On 31st December 2006 on order of adjudication was made against him when his affairs were as follows:

| | **Shs**. |
|---|---:|
| Buildings cost sh. 550,000 estimated to realize | 400,000 |
| Plant & machinery cost sh. 250,000 estimated to realise | 150,000 |
| Bond debts: Good sh. 40,000. Estimated to realise | 10,000 |
| Doubtful sh. 30,000 estimated to realise | 5,000 |
| Bills receivable discounted and expected to rank | 50,000 |
| Preferential creditors | 30,000 |
| Creditors partly secured. (security is life policy) | |
| Estimated to be worth sh. 80,000) | 230,000 |
| Mortgage on buildings | 280,000 |
| Unsecured creditors | 400,000 |
| Household furniture | 20,000 |
| Household debts | 10,000 |
| Furniture: cost sh. 100,000 estimated to realise | 60,000 |
| Stock: cost 160,000 estimated to realise | 135,000 |
| Cash in hand | 15,000 |

**Required:**

Prepare a statement of affairs and a deficiency account as at 31st December 2006.

**(12 marks)**

## QUESTION 4

a) Explain any **SIX** reasons why a new partner has to pay for goodwill when being admitted. **(12 marks)**

b) Three partners have been in business sharing profit in the ratio of Vantuira 3: Aparecida 2: Fraga 5. They are to change their profit ratios into Vantuira 4: Aparecida 1: Fraga 3. The last balancesheet before the change was

**Balance sheet as at 31st March 2003**

| | |
|---|---|
| Net assets (not including goodwill) | 100,000 |
| Capitals: Vantuira | 30,000 |
| Aparecida | 20,000 |
| Fraga | 50,000 |
| | 100,000 |

The partners agreed to bring in goodwill and value it at sh. 24,000 and then write it off. Draw the partners capital account after the change took place. **(8 marks)**

## QUESTION 5

a) Explain the different capital change situations that may constitute capital reorganization. **(10 marks)**

b) Explain the following terms:

i) Receivership **(2 marks)**
ii) Liquidation **(2 marks)**
iii) Contributory **(2 marks)**
iv) Liquidator **(2 marks)**
v) Trustee **(2 marks)**