



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY

BAC 2207: ADVANCED ACCOUNTING I

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 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)

At 31st December 2007, the balancesheet of A, B and C who are equal partners, was as follows:

Fixed assets

Freehold premises	16,000
Machinery and tools	15,100
Investment at cost	<u>4,000</u>
	35,100

Current assets

Stock	16,000
Debtors	12,800
Bank	<u>12,100</u>
	40,900
Less current liabilities	
Creditors	<u>(14,000)</u>
	<u>26,900</u>
	<u>62,000</u>

Additional information

A retired at that date. In order to determine the amount due to him the following revaluations were made:

Freehold premises sh. 18,000; machinery and tools sh. 16,000 investments sh. 5,100

The value of goodwill was agreed at sh. 8,000. It was arranged that A should take over the investments in part payment of the amount due to him, the balance to be settled in cash. B and C would increase their capitals by paying in sh. 10,000 and sh. 6,000 respectively.

These changes were all carried out.

Required:

- Prepare the revaluation account. **(8 marks)**
- Prepare the bank account. **(6 marks)**
- Prepare the capital accounts. **(7 marks)**
- Prepare the opening balance sheet. **(9 marks)**

QUESTION 2

a) Pari Ltd was incorporated as private company in 2000. The latest balance sheet is as follows:

	Sh. '000'	Sh. '000'
Fixed assets		29,000
Goodwill at cost		25,000
Premises at cost		<u>17,000</u>
Plant and machinery & motor vehicles (NBV)		71,000
Current Assets		
Stock	19,200	
Debtors	6,700	
Prepayments	600	26,500
Accumulated losses		<u>18,700</u>
		<u>116,200</u>
Capital		
Ordinary shares sh. 20 each		45,000
Cumulative preference shares of sh. 20 each		<u>30,000</u>
		75,000
Longterm liabilities		
9% debentures (2000 – 2005)		18,000
Current liabilities		
Bank overdraft	8,500	
Creditors	10,200	
Accrued expenses	4,500	<u>23,200</u>
		<u>116,200</u>

Additional information:

- i) The premises are now estimated to be worth 28,000,000 and plant and machinery and motor vehicle are estimated to be worth. 12 million.
- ii) Additional bad debts of 1 million should be made.
- iii) The dividend for preference shareholders of 20% per annum has not been paid for the last 3 years.
- iv) It is considered that a proposed re-organization of the business should result in net profits of sh. 3,600,000 in 2004/2005 and sh. 5,400,000 in the following year. The tax losses are approximately equal to the accumulated losses in the balancesheet.
- v) The ordinary shareholders are prepared to bring in an additional sh. 15 million capital if they consider the proposed scheme satisfactory.
- vi) The bank overdraft limit is 10 million
- vii) The debentureholders have a fixed charge on the premises.

- viii) It is estimated that additional losses of 4 million would be incurred if the business was wound up at this time.

Required:

Suggest a suitable capital reduction scheme acceptable to all shareholders.

(20 marks)

QUESTION 3

ABC went into voluntary liquidation on 31st March 2006 and the following balancesheet was prepared.

Balancesheet as at 31st March 2006

Assets		Share capital	
Goodwill	400,000	195,000 ordinary shares @ sh. 10	1,950,000
Patents	100,000	Sundry creditors	
Freehold buildings	480,000	Preferential	242,000
Plant	568,000	Partly secured against Freehold buildings	553,100
Debtors	648,000	Unsecured	<u>997,900</u>
Profit & Loss A/c	<u>986,800</u>	Bank overdraft (unsecured)	<u>120,000</u>
	<u>3,863,000</u>		<u>3,863,000</u>

The liquidator realized the assets as follows

- Freehold buildings sh. 350,000; sundry debtors sh. 585,000; plant sh. 510,000; bills receivable sh. 25,000 and stock sh. 390,000.
- The expenses of liquidation amounted to sh. 10,000 and the liquidator's remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to the unsecured creditors.

Required:

a) Liquidators final statement of account.

(10 marks)

b) Calculation of liquidator's remuneration.

(10 marks)

QUESTION 4

- a) Explain any **FIVE** contents of a partnership agreement. **(10 marks)**
- b) Black, Brown and cook are partners. They share profits in the ratio of $\frac{2}{9}$, $\frac{1}{3}$ and $\frac{4}{9}$ respectively for the year ended 31st July 2012, their capital accounts remained fixed at the following amounts:

Black	60,000
Brown	40,000
Cook	20,000

1. They agreed to give each other 6% interest per annum on their capital accounts.
2. The partners salaries of sh. 30,000 for Brown and sh. 18,000 for cook are paid.
3. The net profit of the partnership, before taking any of the above into account was sh. 111,000.

Required:

Draw the partners appropriation account for the year ended 31st July 2012. **(10 marks)**

QUESTION 5

- a) Describe the order of payment in case of liquidation. **(10 marks)**
- b) Describe the following terms in regards to accounting:
- i) Absorption **(2 marks)**
 - ii) Amalgamation **(2 marks)**
 - iii) Internal reconstruction **(2 marks)**
 - iv) External reconstruction **(2 marks)**
 - v) Re-organization. **(2 marks)**