TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMMERCE

BAC 4301: ADVANCED ACCOUNTING I

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

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

This paper consists of Six printed pages

QUESTION 1 (Compulsory)

Uzel and Donna are in partnership. The following Trial Balance has been extracted from their books of account as at 31st March 20 x 2 after their income statement has been prepared, but before any consequent, adjustments have been made to the partners' respective capital accounts.

	Dr. **Ksh.**	**Cr.** **Ksh.**
Capital accounts (as at 1.4.20 x 1):		
Uzel		60,000
Donna		40,000
Cash	6,600	
Account payable		29,250
Accounts receivable	201,000	
Donna: goods withdrawn	400	

Drawings:		
Uzel (all at 31.12.20 1)	20,000	
Donna (all at 30.9.20 x 1)	15,000	
Fixed assets: at cost	200,000	
Accumulated depreciation on fixed assets		90,000
Accrued interest on Uzel's loan account		10,000
Loan account: Uzel		50,000
Net Profit for the year to 31.3.20 x 2		179,750
Salary; Donna	12,000	
Inventory	3,500	
Uzel: private expenses paid (on 31.3.20 x 2)	500	
	459,000	**459,000**

Additional information:

1. The partnership agreement contains the following provisions:
   a) Profits and losses are to be shared equally;
   b) Current accounts are not to be kept;
   c) The partners will be entitled to interest on their capital account balances as at 1st April in each year at a rate of 15% per annum.
   d) The partners will be charged interest on any cash drawings made during the year at a rate of interest of 10% per annum;
   e) Donna is to be allowed a salary of sh. 16 million per annum;
   f) A specific loan made by any partner is to bear interest at a rate of 20% per annum
   g) Upon the retirement of a partner, the partnership assets and liabilities are to be revalued at their market value as at the date of retirement of the partner.

2. Uzel decided to retire at 31st March 20 x 2. In accordance with the partnership agreement, the assets and liabilities were revalued as follows:

	Sh. 000
Car (to be retained by Uzel)	10,000
Remaining fixed assets taken over by the new partnership	50,000
Inventory	5,000
Accounts receivable	180,000
Accounts payable	35,000
Goodwill	40,000
Legal and other expenses connected to partnership change	4,750

3. Following Uzel's decision to retire, Donna invited Sally to join him in partnership as from 1st April 20 x 2. Sally agreed to pay sh. 75 million into the new partnership as at that date as his capital contribution. Profits and losses are to be shared in the proportion Donna 75% and Sally 25%. Goodwill is not to be retained in the books of partnership.

4. Uzel agreed to leave half of the total amount owing to him on his retirement as long term loan in the new partnership, the other half being paid to him in cash.
5. It may be assumed that all of the transactions relating to the changes in the respective partnerships take place on 1st April 20 x 2. The legal and other expenses connected with the partnership changes were due for payment on 30th April 20 x 2.

Required:
Prepare

a) Uzel and Donna's profit and loss appropriation account for the year to 31st March 20 x 2. **(10 marks)**

b) Uzel, Donna and Sally's respective capital accounts sufficient to reflect all of the above transactions, and **(10 marks)**

c) Donna and Sally's balance sheet as at 1st April 20 x 2 immediately after all the above, transactions have been settled. **(10 marks)**

QUESTION 2

Fathiya consigned goods to Bakari on 1st April and it was agreed that Bakari should receive a commission of 5% on the sales plus a further 2% del credere commission.

The consignment consisted of 120 articles valued at sh. 5,000 each. Fathiya paid carriage charges of sh. 20,000 and insurance premium of sh. 16,000.

On 30th June Bakari submitted an account sales showing 84 articles had been sold for sh. 580,000. Bakari had paid landing charges and duty of sh. 18,000 and sh. 12,500 in selling expenses. He sent Fathiya a remittance of sh. 450,000 which represented cash he had received from debtors in respect of sales.

On 30th September, Bakari sold more articles which had realized sh. 260,000 and he incurred further selling expenses of sh. 12,000. The amount due to Fathiya was remitted on 7th October. Fathiya makes up his accounts to 30th June.

Required:
Write up the necessary accounts in Fathiya's books to record these transactions.

(20 marks)

QUESTION 3

GH Limited acquired 3 excavators from Maran Ltd under hire purchase agreements which provided for a deposit of 10% with the balance to be paid in three annual instalments, the first of which was due one year after the signing of the agreement and the payment of that deposit. The date of purchase, capital cost and annual repayments are as under:

Excavator	**Date of acquisition**	**Capital cost**	**Annual repayment**
		Sh. 000	**Sh. 000**
A	31st December 20 x 5	15,000	5,428
B	31st December 20 x 5	15,000	5,428
C	31st December 20 x 7	25,000	8,042

All instalments were paid on the due dates except that when the excavator C was purchased the vendor agreed to take back excavator A on the basis that GH Limited was to be credited with sh. 5 million in lieu of a deposit on excavator C and that no further payment was to be made in respect of excavator A after the instalment paid on 31st December 20 x 7.

The practice of GH Limited was to capitalize the cash value of each excavator immediately on purchase crediting it to the vendor. Each yearly instalment included interest at the rate of 10% per annum calculated on the outstanding balance of the year. The company makes up its accounts to 31st December of each year and provides depreciation on excavators at the rate of 20% on reducing balance.

Required:

a) Write up in the books of GH Ltd in columnar form for three years ended 31st December 20 x 8:
   i) Asset account for each excavator; **(4 marks)**
   ii) Vendors account for excavator; **(4 marks)**
   iii) Asset disposal account; **(4 marks)**
   iv) Depreciation provision account for each excavator. **(4 marks)**

b) Show how the figures relating to the excavators should appear in the balance sheet of GH Ltd at 31st December 20 x 8. **(4 marks)**
   Taxation is to be ignored.

QUESTION 4

Maweni Ltd acquired rights to extract mineral ore from the mines belonging to Lunga Ltd on the following terms:

a) The lessee is to pay sh. 10,000 for each ton of ore extracted.
b) Minimum rent is to be sh. 4 million per annum.
c) Any payments for shortworkings are recoverable only in the two years following that in which they occurred.
d) Payment of royalties to Lunga Ltd is made on 31st December each year.

The agreement came into effect on 1st January 2006. The following quantities of mineral ore were extracted by Maweni Ltd during the first 7 years.

Year	Tons extracted
2006	420
2007	310
2008	560
2009	280
2010	440
2011	450
2012	780

The financial year end for Maweni Ltd is 31st December.

Required:

Prepare the necessary accounts to show the above transactions in the books of Maweni Ltd for all the 7 years. **(20 marks)**

QUESTION 5

Halima established a retail business in Mombasa several years ago and has since opened branch shops at Voi, Emali and Machakos. Each branch has a Manager and one or more part-time assistants. All the purchasing and administration is done at Mombasa. Branches sell both for cash and on credit terms but all invoices for credit sales are dispatched from Mombasa and payments from credit customers received there. The average gross profit that managers are expected to achieve is 50% on cost price. The following information relates to the Voi branch for the first 6 months of 2014.

	Sh. 000
Opening stock of goods at branch (cost price)	2,800
Opening debtors	900
Goods sent to branch (selling price)	18,000
Credit sales	6,000
Cash sales	10,200

Transfers from other branches (to Voi) (selling price)	1,200
Transfers to other branches (from Voi) (selling price)	2,100
Goods returned to Mombasa (selling price)	600
Cash from debtors received at Mombasa	5,300
Bad debts written off	200
Goods returned by credit customers to the branch	240
Goods returned by credit customers to Mombasa	120
Closing stock of goods at branch (selling price)	4,500

Required:

a) Briefly outline the main objective of an accounting system in the type of situation described in the first paragraph. **(2 marks)**

b) From the information given prepare the appropriate accounts for the Voi branch for the first six months of 2014. **(18 marks)**

NB. Use memorandum column method.