



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY

BAC 2206: SPECIALIZED ACCOUNTING

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

- a) Explain the following terms as used in royalty accounts:
- i) Royalty (2 marks)
 - ii) Minimum rent (2 marks)
 - iii) Short workings (2 marks)
 - iv) Recoupment of short workings (2 marks)
 - v) Sub-lease (2 marks)
- b) Black Ltd leased a coal field from White Ltd for a period of five years from 1st January 2000 on a royalty of sh. 100 per ton of coal raised with a minimum rent of sh. 500,000 p.a and power to recoup short workings during the first three years of the lease. The annual output was as follows:

Year	Output in tons
2000	3,000
2001	5,000
2002	6,000
2003	7,000
2004	6,000

Black Ltd's books are closed on 31st December each year.

Required:

- i) Royalties payable account (6 marks)
 - ii) Landlord's account (6 marks)
 - iii) Short workings account (5 marks)
- c) State the circumstances under which royalty may arise. (3 marks)

QUESTION 2

- a) On 1st August, Ryan and Simon entered into a joint venture to buy and sell antiques and they agreed to share profit and loss equally. On 19th August, Ryan bought two antiques for sh. 10,000. Ryan incurred expenses of sh. 1,000. On 24th August, he sold the antiques for sh. 30,000.

On 25th August, Simon bought two antiques for sh. 20,000 and on 29th August managed to sell them off for sh. 60,000 and incurred expenses of sh. 2,000. The books are agreed to be closed at the end of the month and a financial settlement is supposed to be effected amongst Simon and Ryan.

Required:

- i) Joint venture account as it would appear in the books of Ryan. (5 marks)
- ii) Joint venture account as it would appear in the books of Simon. (5 marks)
- iii) Memorandum joint venture. (7 marks)

b) Highlight the main characteristics of a joint venture.

(3 marks)

QUESTION 3

Isuzu Ltd deals in motor vehicles. They sell motor vehicles for cash and also on hire purchase basis. They sold two motor vehicles on hire purchase basis to Mfano Ltd on 1st January 2005 for sh. 700,000. The cash price of these vehicles was sh. 580,000. The payments were to be made by Mfano Ltd as follows:

Deposit sh. 100,000

24 monthly instalments sh. 25,000 each.

The company recognizes profit on hire purchase sales in the year of sales but hire purchase interest is apportioned on time basis. The financial year of the company ends on 31st December each year.

Required:

- a) Sales account (Mfano Ltd) **(4 marks)**
- b) Hire purchase interest Suspense Account **(5 marks)**
- c) Hire purchase debtors account **(8 marks)**
- d) Profit and loss account (Extract) **(3 marks)**

QUESTION 4

XY Ltd of Nairobi consigned 800 bales of cotton to PQ Ltd of Lusaka at cost price sh. 500 per bale. The expenses on consignment incurred by the consignor were amounting to sh. 25,000. PQ Ltd were working as del credere agents. Their ordinary commission was 4% and del credere commission 6%. PQ Ltd paid by cheque sh. 100,000 as an advance to XY Ltd immediately on receipt of the consignment goods. Exactly after six months an "Account sales" was received by XY Ltd giving the following information:

- i) Sales proceeds of 600 bales sh. 420,000.
- ii) Stock of unsold goods in hand 200 bales.
- iii) Commission charged at agreed rates of 4% and 6% del credere.
- iv) Consignees expenses amounted to sh. 8,000.
- v) A cheque was sent by PQ Ltd to XY Ltd in settlement of account along with the account sales.

Show the entries in

- a) Consignors books. **(10 marks)**
- b) Consignees books **(10 marks)**

QUESTION 5

- a) With reference to IAS 11, explain the following methods of accounting for contracts:
- i) Percentage of completion method. **(3 marks)**
 - ii) Completed contract method. **(3 marks)**
- b) Eagle Construction Company Ltd won the contract for building Mbaraka Industrial College at a cost of sh. 120 million. For the company's financial year ended 31st March 2008, the data relating to the contract was as follows:

	Sh. '000'
Materials issued to the site	21,500
Cost of labour engaged on contract	3,600
Plant purchased and installed	18,000
Direct expenditure	4,800
General management charges	1,750
Materials returned to the store	2,500
Work certified	25,000
Cost of work not certified	7,000
Stock of materials on site 21.3.2008	2,000
Wages accrued 31.3.2008	300
Value of plant on 31.3.2008	12,000

The company has received from the college payments amounting to sh. 20 million.

Required:

- i) Contract account. **(10 marks)**
- ii) Contractee account **(4 marks)**