TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

DIPLOMA IN ACCOUNTANCY

BAC 2207: ADVANCED ACCOUNTING 1

END OF SEMESTER EXAMINATIONS

SERIES: APRIL/MAY 2016

TIME: 2 HOURS

INSTRUCTIONS:

-This paper consists of Sections **A** and **B.**
-Section **A** is Compulsory. Answer any **TWO** questions in Section **B**.
-Mobile phones are not allowed into examination room.
-Cheating leads to disqualification.
-***This paper consists of Six printed pages.***

Question One

Sage an Onion are trading in partnership, sharing profits and losses equally. Interest at 5% per annum is allowed or charged on both the capital account and the current account balances the beginning of the ear interest is charged on drawings at 5% per annum. The partners are entitled to annual salaries of: Sage £12,000; Onion £8,000.

	Dr	Cr
	£	£
Capital accounts: Sage		100,000
Onion		50,000
Current accounts: Sage		2,000
Onion	600	
Cash drawings for the year: Sage	15,000	
Onion	10,000	
Freehold premises at cost	50,000	
Inventory at 1 January 2001	75,000	
Fixtures and fittings at cost	15,000	
Purchases and purchase returns	380,000	12,000
Bank	31,600	
Sales and sales returns	6,000	508,000
Accounts receivable and accounts payable	52,400	33,300
Carriage inwards	21,500	
Carriage outwards	3,000	
Staff salaries	42,000	
VAT		8,700
Office expenses	7,500	
Allowance for doubtful debts		2,000
Advertising	5000	
Discounts received		1,000
Discounts allowed	1,200	
Bad debts	1,400	
Rent and business rates	2,800	
Accumulated provision for depreciation of fixtures and fittings		3,000
	720,000	720,000

At 31 December 2001:

a) Inventory was valued at £68,000. .
b) Purchase invoices amounting to £3,000 for goods included in the inventory valuation at (a) above had not been recorded.
c) Staff salaries owing £900.
d) Business rates paid in advance £200.
e) Allowance for doubtful debts to be increased to £2,400.

f) Goods withdrawn by partners for private use had not been recorded and were valued at: Sage £500, Onion £630. No interest is to be charged on these amounts.

g) Provision is to be made for depreciation of fixtures and fittings at 10% on cost.

h) Interest On drawings for the year is to be charged: Sage £360, Onion £280.

Required: _

From the information given, prepare the partnership income statement and profit and loss appropriation account for the year ending 31 December 2001 (15 mks)

The balance sheet as at that date. (15 mks)

Question Two

Owing to staff illnesses, the draft final accounts for the year ended 31 March 2009 of Messrs Stone, Pebble and Brick, trading in partnership as the Bigtirne Building Supply Company have been prepared by an inexperienced, but keen, clerk. The draft summarized balance sheet as at 31 March 2009 is as follows:

				£
Tangible non-current assets: At cost less depreciation to date				45,400
Current assets				32,290
Total assets				77,690
Trade accounts payable				(6,390)
Net assets				71,300
	Stone	Pebble	Brick	Total
Represented by:	£	£	£	£
Capital accounts: at 1 April 2008	26,000	18,000	16,000	60,000
Current accounts:				
Share of net profit for the year ended 31 March 2009	12,100	12,100	12,100	
Drawings year ended 31 March 2009	(8,200)	(9600)	(7,200)	
At 31 March 2009	3,900	2,500	4,900	11,300
				71,300

The partnership commenced on 1 April 2008 when each of the partners introduced, as their partnership capital the net tangible non-current and current assets of their previously separate businesses. However, it has now been discovered that, contrary to what was agreed, no adjustments were made in the partnership books for the goodwill of the partners former businesses now incorporated in the partnership. The agreed valuations of goodwill at 1 April 2008 are as follows:

£

Stone's business	30,000
Pebble's business	20,000
Brick's business	16,000

It is agreed that a goodwill account should not be opened in the partnership's books. It has now been discovered that effect has not been given in the accounts to the following provisions in the partnership agreement effective from 1 January 2009:

1. Stone's capital to be reduced to £20,000, the balance being transferred to a loan account upon which interest at the rate of 11% per annum will be paid on 31 December each year.
2. Partners to be credited with interest or their capital account balances at the rate of 5% per annum.
3. Brick to be credited with a partner's salary at the rate of £8,500 per annum.
4. The balance of the net profit or loss to be shared between Stone, Pebble and Brick in the ratio 5:3:2 respectively.

Required:

Prepare :

i) Partners capital account (5 mks)

ii) Partners current account (5 mks)

iii) Partnership profit and loss appropriation account (10 mks)

Question Three

a) Explain the order in payment during liquidation (10 mks)

b) Explain ways in which a trustee can be terminated (10 mks)

Question Four

X, Y and Z have been in partnership for several years, sharing profits and losses in the ratio 3 : 2 : 1. Their last balance sheet which was prepared on 31 October 2009 is as follows:

Balance Sheet of X, Y and Z as at 31 October 2009

	£	£
Non-current assets		
At cost		20,000
Less Depreciation		(6,000)
		14,000

Current assets		
Inventory	5,000	
Accounts receivable	21,000	
		26,000
Total assets		40,000
Current liabilities		
Bank	13,000	
Accounts payable	17,000	
Total liabilities		(30,000)
Net assets		10,000
Capital		
X		4,000
Y		4,000
Z		2,000
Total capital		10,000

Despite making good profits during recent years they had become increasingly dependent on one credit customer, Smithson, and in order to retain his custom they had gradually increased his credit limit until he owed the partnership £18, 000. It has now been discovered that Smithson is insolvent and that he is unlikely to repay any of the money owed by him to the partnership. Reluctantly X, Y and Z have agreed to dissolve the partnership on the following terms:

i. The inventory is to be sold to Nelson Ltd for £4,000.
ii. The non-current assets will be sold for £8,000 except for certain items with a book value of £5,000 which will be taken over by X at an agreed valuation of £7,000.
iii. The debtors, except for Smithson, are expected to pay their accounts in full.
iv. The costs of dissolution will be £800 and discounts received from creditors will be £500. Z is unable to meet his liability to the partnership out of his personal funds.

Required:

(a) the realization account; (10 mks)

(b) the capital accounts to the partners recording the dissolution of the partnership. (10 mks)

Question Five

The following trial balance is extracted from the books of F W Ltd as on 31 December 2005.

Trial balance as on 31 December 2005

	£	£

10% preference share capital		200,000
Ordinary share capital		700,000
10% loan notes (repayable 2009)		300,000
at cost	255,000	
Buildings at cost	1,050,000	
Equipment at cost	120,000	
Motor vehicles at cost	172,000	
Provision for depreciation: buildings 1.1.2005		100,000
Provision for depreciation: equipment 1.1.2005		24,000
Provision for depreciation: motor vehicles 1.1.2005		51,600
Inventory 1.1.2005	84,912	
Sales		1,022,000
Purchases	439,100	
Carriage inwards	6,200	
Salaries and wages	192,400	
Directors' remuneration	123.000	
Motor expenses	3,120	
Business rates and insurances	8,690	
General expenses	5,600	
Loan note interest	15,000	
Accounts receivable	186,100	
Accounts payable		113,700
Bank	8,390	
General reserve		50,000
Share premium account		100,000
Interim ordinary dividend paid	35,000	
Retained profits 31.12.2004		43,212
	2,704,512	2,704,512

The following adjustments are needed:

i. Inventory at 31.12.2005 was £91,413.

ii. Depreciate buildings £10,000; motor vehicles £18,000; equipment £12,000.

iii. Accrue loan note interest £15,000.

iv. Provide for preference dividend £20,000 and final ordinary dividend of 10 per cent.

v. Transfer £10,000 to general reserve.

vi. Write-off goodwill impairment of £30,000.

vii. Authorized share capital is £200,000 in preference shares and £1 million in ordinary shares.

viii. Provide for corporation tax £50,000.

Required:

i) Draw an income statement for FW Ltd for the period ending on 31 December 2005. (10 mks)

ii) Draw FW Ltd balancesheet as at 31 December 2005 (10 mks)