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

Reid and Benson are in partnership as lecturers and tutors. Interest is to be allowed on capital and on the opening balances on the current accounts at a rate of 5% per annum and Reid is to be given a salary of £18,000 per annum. Interest is to be charged on drawings at 5% per annum (see notes below) and the profits and losses are to be shared Reid 60% and Benson 40%.

The following trial balance was extracted from the books of the partnership at 31 December 2003.

	£	£
Capital account – Benson		50,000
Capital account – Reid		75,000
Current account – Benson		4,000
Current account – Reid		5,000
Drawings – Reid	17,000	
Drawings - Benson	20,000	
Sales - goods and services		541,750
Purchases of textbooks for distribution	291,830	
Returns inwards and outwards	800	330
Carriage inwards	3,150	
Staff salaries	141,150	
Rent	2,500	
Insurance - general	1,000	
Insurance - public indemnity	1,500	
Compensation paid due to Benson error	10,000	
General expenses	9,500	
Bad debts written - off	1,150	
Fixtures and fittings - cost	74,000	
Fixtures and fittings – depreciation		12,000
Accounts receivable and accounts payable	137,500	23,400
Cash	400	
Total	711,480	711,480

- An allowance for doubtful debts is to be created of £1,500
- Insurances paid in advance at 31 December 2002 were General £50; Professional Indemnity £100.
- Fixtures and fittings are to be depreciated at 10% on cost.
- Interest on drawings: Benson £550, Reid £1,050.
- Inventory of books at 31 December 2003 was £1,500.

Required:

Prepare:

i) Capital account (5 mks)

ii) Current account (5 mks)

iii) An income statement together with an appropriation account at 31 December 2003 (10 mks)

iv) A balance sheet as at 31 December 2003. (10 mks)

Question Two

The trial balance extracted from the books of Tailor Times Ltd at 31 December 2003 was as follows:

	£	£
Share capital		200,000
Retained profits 31 December 2002		27,500
Freehold premises at cost	271,000	
Provision for depreciation on free-hold premises at 31 December 2002		54,000
Machinery at cost	84,000	
Provision for depreciation on machinery account as at 31 December 2002		21,000
Purchases	563,700	
Sales		925,300
General expenses	14,600	
Wages and salaries	179,400	
Business rates	6,100	
Electricity	4,800	
Bad debts	1,400	
Allowance for doubtful debts at 31 December 2002		1,200
Accounts receivable	74,200	
Accounts payable		68,300
inventory at 31 December 2002	81,900	
Bank balance	16,200	
	1,297,300	1,297,300

You are given the following additional information:

i. The authorized and issued share capital is divided into 400,000 ordinary shares of 50p each.

ii. Inventory at 31 December 2003, £94,300.

iii. Wages and salaries due at 31 December 2003 amounted to £1,800.

iv. Business rates paid in advance at 31 December 2003 amounted to £700.

v. A dividend of £20,000 is proposed for 2003.

vi. The allowance for doubtful debts is to be increased to £1,500.

vii. A depreciation charge is to be made on freehold premises of £25,000 and machinery at the rate of 25 per cent per annum on cost.

Required:

i) Income statement for the period ending 31 December 2003 (10 mks)

ii) Balancesheet as at 30 December 2003 (10 mks)

Question Three

Collapsible was incorporated as a private company in 1967. The company was reasonably successful until about 1990 but in the last three years trading losses have been incurred and the board of directors is now considering the alternatives of liquidation or a capital reduction. The latest balance sheet was s follows:

	Shs '000'	shs '000'
Fixed assets		
Goodwill (at cost)		29000
Premises (at cost)		25000
Plant, machinery and motor vehicle		
(net book value)		17,000
		71,000
Current assets		
Stock	19,200	
Debtors	6,700	
Prepayments	600	26,500
Accumulated losses		18,700
		116,200
Capital		
Ordinary shares of sh. 20 each		45000
Cumulative preference shares of sh 20 each		30,000
		75000
Long term liabilities:		
9% Debentures (1992-1995)		18000
Current liabilities:		

Bank overdraft	8500	
Creditors	10200	
Accrued expenses	4500	23200
		116200

The following information is relevant

a. The current value of premises is estimated to be in the region of shs. 28000000 and plant, machinery and motor vehicle are considered to be worth shs. 12000000.
b. The stock valuation is considered to be realistic but additional bad debts of shs. 1,000000 should be provided for in the debtors figure
c. The preference shareholders in any liquidation scheme their dividends of 20% p.a has not been paid for the last three years.
d. It is considered that a proposed re-organization of the business should result in net profits if sh. 3600000 in 1995/96 and sh. 5400000000 in the following year. The tax losses are approximately equal to the accumulated losses in the balance sheet.
e. The ordinary shareholders are prepared to bring in an additional sh. 15000000 capital if they consider the proposed scheme satisfactory.
f. The bank overdraft limit is shs. 10,000000.
g. The debenture holders have a fixed charge on the premises.
h. It is estimated that additional losses of shs. 4,000000 would be incurred if the business was would up at this time.

Required:

Suggest a suitable capital reduction scheme, which would be acceptable to both ordinary, and preference shareholders. Your answer should be in the form of a report to the managing director giving precise recommendations based on the balance sheet and addition information provided. (20 mks)

Question Four

At 31 December 2007, the balance sheet of A, B and C, who are equal partners, was as follows

	£
Non-current assets	
Freehold premises	16,000
Machinery and tools	15,100

investment, at cost		4 009
		35,100
Current assets		
Inventory	16,000	
Accounts receivable	12,800	
Bank	12,100	
		40,900
Total assets		76,000
Current liabilities		
Accounts payable		(14,000)
Net assets ' '		62,000
Capital accounts		
A		20,000
B		17,000
C		25 000
Total capital		62,000

A retired at that date. In order to determine the amount due to him the following revaluations were made: Freehold premises £18,000; machinery and tools £16,000; investments £5,100

The Value of the goodwill was agreed at £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 increase their capitals by paying in £10,000 and £6,000 respectively. These changes were all carried out

Required:

a) Prepare the revaluation account, bank account and capital accounts. (10 mks)
b) Prepare the opening balance sheet of B and C. (10 mks)

Question Five

a) Explain the order of payment in case of bankruptcy (10 mks)

b) Explain the following words in Executorship

i) Intestate (2 mks)

ii) Abatement (2 mks)

iii) Disclaimer (2 mks)

iv) Lapse (2 mks)

v) Ademption (2 mks)