



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTACY

BAC 2207: ADVANCED ACCOUNTING I

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2019

TIME: 2 HOURS

DATE: Pick Date Aug 2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

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

Do not write on the question paper.

Question ONE

- (a) Baba, Mama and Dada have been in partnership for several years, sharing profits and losses in the ratio 3:2:1. Their last statement of financial position which was prepared on 31 December 2018 is as follows:

Baba, Mama and Dada		
<u>Statement of Financial Position as at 31 December 2018</u>		
	Sh.000	Sh.000
<u>Non-current assets at cost</u>	20,000	
Less Accumulated depreciation	(6,000)	
		14,000
<u>Current assets</u>		
Inventory	5,000	
Accounts receivable	21,000	
		<u>26,000</u>
Total assets		40,000
<u>Current liabilities</u>		
Bank overdraft	13,000	
Accounts payable	17,000	
Total liabilities		<u>(30,000)</u>

Net assets	<u>10,000</u>
<u>Capital</u>	
Baba	4,000
Mama	4,000
Dada	<u>2,000</u>
Total capital	<u>10,000</u>

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

- (i) The inventory is to be sold to Ngelani Ltd for sh.4million.
- (ii) The non-current assets will be sold for sh.8million except for certain items with a book value of sh.5million which will be taken over by Baba at an agreed valuation of sh.7million.
- (iii) The debtors, except for Samba, are expected to pay their accounts in full.
- (iv) The costs of dissolution will be sh.0.8million and discounts received from creditors will be sh.0.5million. Dada is unable to meet her liability to the partnership out of her personal funds.

Required:

- (a) Account for the above transactions to dissolve the partnership; (18 marks)
 - (b) The capital accounts to the partners recording the dissolution of the partnership. (12 marks)
- (Total = 30 marks)**

Question TWO

- (a) Indicate the key points that should be taken into consideration while preparing the statement of affairs in a Bankruptcy case. (5 marks)
- (b) How does insolvency of individuals differ from that of partnership firms? (5 marks)
- (c) Yambo disclosed the following at the date of receiving order.

- (i) Business

Balance Sheet			
	Sh.000		Sh.000
Creditors	1,600		Estimated value
Preferential credit	150	Stock	Sh.000
Loan on Mortgage		Debtors:	40
(secured on property)	1,200	Good debtors	810
Bills payable	600	Doubtful Debtors	500
Capital	620	Bad	600
		Cash	10
		Property	1800
		Bills Receivable	<u>250</u>
	<u>4,170</u>		<u>4,170</u>

Three years ago his business capital was sh.1million profits and drawings during the period were sh.1.1million and sh.1,480,000 respectively.

Contingent liability for bill discounted sh.300,000 expected to rank for sh.80,000.

(ii) Private

Balance Sheet				
	Sh.000		Sh.000	Estimated to produce
Creditors	1,600			Sh.000
		Furniture	600	500
		Life policy	1,000	700
	<u>1,600</u>		<u>1,600</u>	

Required:

Prepare Yambo's Statement of Affairs and deficiency account.

(10 marks)

(Total = 20 marks)

Question THREE

The financial position of Matatizo Company at 30 September 2018 was as follows:

Balance Sheet as at 30 September 2018			
	Cost	Depn	NBV
	Sh.000	Sh.000	Sh.000
<u>Non Current Assets</u>			
Freehold premises	100,000	20,000	80,000
Plant and equipment	250,000	60,000	190,000
Vehicles	<u>45,000</u>	<u>15,000</u>	<u>30,000</u>
	<u>395,000</u>	<u>95,000</u>	300,000
<u>Current Assets</u>			
Inventory		40,000	
Accounts receivable		30,000	
Bank		<u>10,000</u>	
		80,000	
<u>Less Current Liabilities</u>			
Accounts payable		<u>(140,000)</u>	
			<u>(60,000)</u>
			<u>240,000</u>
Financed by share capital			
Authorised			
150million 7% Preference share of sh.1.00 each	150,000		
400million ordinary shares of sh.1.00 each.	<u>400,000</u>		
	<u>550,000</u>		
Issued and fully paid			
100million 7% Preference shares of sh.1.00 each	100,000		
400million ordinary share of sh.1.100 each with sh.0.75 paid.	<u>300,000</u>		
			400,000
<u>Reserves</u>			
Profit and loss (debit balance)			<u>(160,000)</u>
			<u>240,000</u>

The 7% Preference dividends are two years in arrears. The company had formulated an approved scheme of reorganisation, to take effect on 1st October 2018 which contained the following provisions.

1. The ordinary shares are to be written down to sh.0.25 per share and then to be converted into new ordinary shares of sh.1.00 per share fully paid.
2. The preference shareholders are to receive 50million ordinary shares of sh.1.00 per share, fully paid at par, in exchange for their preference shares.
3. In consideration for waving their rights to arrears of preference dividend, the preference shareholders have agreed to accept 10million new ordinary shares of sh.1.00 per share, fully paid, in full and final settlement.
4. The creditors have agreed to take 100million new ordinary shares of sh.1.00 per share, fully paid at par, in part satisfaction of the sums due to them.
5. The adverse balance on profit and loss is to be written off.
6. The following revaluations are to be included into the accounts;

	Sh.000
Freehold premises	100,000
Plant and equipment	105,000
Vehicles	25,000
Inventory	36,000

and a provision for bad debts is to be raised at sh.1million.

Required:

- (a) Post the appropriate accounts to effect the reorganisation, and (12 marks)
 - (b) Prepare the balance sheet of Matatizo Company immediately after all the reorganisation entries have been posted. (8 marks)
- (Total = 20 marks)**

Question FOUR

Immediately prior to its conversion into a limited company, the Balance sheet of the partnership firm belonging to Ezekiel and Walter, who shared profits and losses 3/5 and 2/5, disclosed.

**Ezekiel, Walter and Company
Balance Sheet as at 30 June 2018**

	Sh.000	Sh.000
<u>Non-current assets:</u>		
Premises at cost		15,000
Equipment at cost	10,000	
Less accumulated depreciation	<u>3,000</u>	
		<u>7,000</u>
		22,000
<u>Current Assets:</u>		
Inventory	8,000	
Accounts receivable	5,000	
Bank	<u>2,000</u>	

Total Assets	<u>15,000</u>
	37,000
<u>Current Liabilities:</u>	
Accounts payable	<u>(7,000)</u>
Net assets	<u>30,000</u>
<u>Financed by:</u>	
Capital - Ezekiel	20,000
- Walter	<u>10,000</u>
	<u>30,000</u>

For the purposes of the conversion all assets (except bank) were taken over at book values but premises were revalued by the company at sh.30million.

Creditors were taken over by the company, YZ Ltd and the agreed consideration was sh.48million to be discharged by the issue of 40million ordinary shares of sh.1.00 per share at a premium of 10% and sh.4million in cash. Ezekiel and Walter each received 20million shares.

Required:

- (a) The Realization Account, Bank Account, YZ Ltd, shares in YZ Ltd and Capital accounts in the ledger of Ezekiel and Walter and Company.
- (b) Journal entries of YZ Ltd to record the conversion.

Question FIVE

Wakili Kali was named executor of the estate of Mzee Bunda, who died on 20 June 2018. On 31 March 2019, the executor prepared the following trial balance.

**ESTATE OF MZEE BUNDA
TRIAL BALANCE AS AT 31 MARCH 2019**

	DR Sh.000	DR Sh.000
Investments:		
Shares	185,000	
Bonds	420,000	
Accrued interest receivable	750	
Cash-principal	108,500	
Cash – income	21,250	
Household effects	23,750	
Loss on realization	6,500	
Assets subsequently discovered		12,000
Debt of decedent paid	56,000	55,200
Unreal expenses	9,500	
Administration expenses	25,700	
Estate corpus		792,750
Income		35,750

Expenses – Income	3,800	
Distribution of Income to beneficiary	9,950	
Legacy – Mtoto Bunda	<u>25,000</u>	<u> </u>
	<u>895,700</u>	<u>895,700</u>

Required:

A charge and discharge statement for the estate of Mzee Runda.

(20 marks)