



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

BAC 2207: ADVANCED ACCOUNTING 1

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

Alan, Bob and Charles are in partnership sharing profits and losses in the ratio 3:2:1 respectively. The statement of financial position for the partnership as at 30 June 2019 is as follows:

	Sh.000	Sh.000
<u>Non-current assets:</u>		90,000
Premises		37,000
Plant		15,000
Vehicles		<u>2,000</u>
Fixtures		144,000
<u>Current Assets:</u>		
Inventory	62,379	
Accounts receivable	34,980	
Cash	<u>760</u>	
		<u>98,119</u>
Total Assets		242,119

<u>Current Liabilities:</u>	19,036	
Accounts payable	<u>4,200</u>	
Bank overdrafts	23,236	
Loan from Charles	<u>28,000</u>	
		<u>(51,236)</u>
		<u>190,883</u>
Net assets		
<u>Capital</u>		85,000
Alan		65,000
Bob		<u>35,000</u>
Charles		185,000
<u>Current account:</u>	3,714	
Alan	(2,509)	
Bob	<u>4,678</u>	
Charles		<u>5,885</u>
Total capital		<u>190,883</u>

Charles decides to retire from the business on 30 June 2019, and Don is admitted as a partner on that date. The following matters are agreed:

- Certain assets are revalued: Premises Sh.120million; Plant sh.35million; Inventory sh.54,179,000.
- Provision is to be made for doubtful debts in the sum of sh.3million.
- Goodwill is to be recorded in the books on the day Charles retires in the sum of sh.42million. The partners in the new firm do not wish to maintain a goodwill account so that the amount is to be written back against the new partners' capital accounts.
- Alan and Bob are to share profits in the same ratio as before, and Don is to have the same share of profits as Bob.
- Charles is to take his car at its book value of sh.3.9million in part payment, and the balance of all he is owed by the firm in cash except sh.20million which he is willing to leave as a loan account.
- The partners in the new firm are to start on an equal footing so far as capital and current accounts are concerned. Don is to contribute cash to bring his capital and current accounts to the same amount as the original partner from the old firm who has the lower investment in the business.

The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.

Required:

- Account for the above transactions, including goodwill and retiring partners' accounts. (20 marks)
 - Draft a statement of financial position for the partnership of Alan, Bob and Don as at 30 June 2019. (10 marks)
- (Total=30 marks)**

Question TWO

- Outline the procedure involved in Bankruptcy. (5 marks)
- State the priority of debts according to Bankruptcy Act Cap 53. (5 marks)

- (c) Ahmed who has been adjudicated as bankrupt, shows the following assets and liabilities.

Balance Sheet				
	Sh.000		Sh.000	Estimated to produce
Creditors	2300			
Bank S/D	520	Debtors	1500	1200
Loan Secured by Mortgage to building	1000	Stock	430	300
Capital	<u>295</u>	Cash	25	25
		Buildings	1560	1100
		Goodwill	500	Nil
		Patent	<u>100</u>	230
	<u>4155</u>		<u>4155</u>	

of the creditors:

360 are preferential, the bank has no security. The capital of Ahmed 3 years ago was Ksh.1million, his losses for the last 2 years being Ksh.705,000 and the profit for the year prior thereto, Ksh.700,000. His drawings over the period of 3 years were Sh.700,000.

Required:

Prepare his statement of affairs and deficiency account.

(10 marks)

(Total = 20 marks)

Question THREE

- (a) Define executorships. Describe the various types of succession. (5 marks)
- (b) After discharging all the debts, funeral expenses and testamentary expenses, the estate of the late Njoroge comprised the following:

	Sh.
Bank balance	316,540
Household furniture	20,000
Motor car	15,000
House	200,000
Building Society deposit	163,460
Paintings	100,000
12½% Kenya Mortgage bond	150,000
Plot at Kahawa-Sukari	<u>90,000</u>
	1,055,000

His will provides for the following legacies;

- (i) To his widow Jane sh.500,000 and his personal belongings.
- (ii) To his sister Mary sh.100,000.
- (iii) To his son Alex the plot at Kahawa-Sukari and sh.50,000.
- (iv) To his daughter Lucy sh.150,000 payable out of his loan account with East African Building Society.
- (v) To his friend Mwaura, his ordinary shares in Tembo SACCO.
- (vi) To his brother Kamau sh.150,000.

(vii) To the local Golf club, 12½% Kenya mortgage bond.

All beneficiaries are of full age.

Just before he died Mr. Njoroge had sold his interest in Tembo SACCO for sh.500,000 and all the amount due to him had been discharged.

Mary and Alex had been killed in a road accident 6 months before Njoroge died. Mary is survived by her son Mark, while Alex is survived by his widow Alice and daughter Ann. Alex's will left the whole of his estate to his widow Alice.

Required:

Prepare a Distribution statement showing the final distribution of the estate.

(15 marks)

(Total = 20 marks)

Question FOUR

The financial position of Plummet Company was as follows:

Balance Sheet as at 30 September 2018		
	Sh.000	Sh.000
<u>Non-current assets (at written down values)</u>		
Freehold property	123,600	
Equipment	96,700	
Vehicles	<u>47,200</u>	
		267,500
<u>Current Assets</u>		
Inventory	82,300	
Accounts receivable	44,500	
Bank and cash	<u>12,400</u>	
	139,200	
<u>Less current liabilities</u>		
Accounts payable	<u>(35,100)</u>	
Net current assets		<u>104,100</u>
Net assets employed		<u>371,600</u>
Financed by:		
<u>Share capital</u>	<u>Authorised</u>	<u>Issued and fully paid</u>
	Sh.000	Sh.000
7% preference shares of sh.1.00 per share	100,000	100,000
Ordinary shares of sh.1.00 per share.	<u>500,000</u>	<u>350,000</u>
	<u>600,000</u>	450,000
<u>Reserves:</u>		
Profit and loss (debit balance)		<u>(78,400)</u>
		<u>371,600</u>

The preference dividends are two years in arrears. A reorganisation scheme had been devised which had secured the necessary approval and contained the following provisions which were to become operative on 1 October 2018.

1. The ordinary shares are to be written down to sh.0.40 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 new ordinary shares of sh.1.00 per share, fully paid at par, in exchange for their preference shares.
3. The preference shareholders have also agreed to waive the rights to the dividend arrears and to accept in lieu 8million new ordinary shares of sh.1.00 per share, fully paid, in full settlement.
4. The creditors have agreed to accept 20million new ordinary shares of sh.1.00 per share, fully paid at par, in part satisfaction of the sums due to them.
5. The debit balance on profit and loss account, is to be written off.
6. Certain assets are to be revalued at the following amounts.

	Sh.000
Freehold property	102,600
Equipment	64,400
Vehicles	30,700
Inventory	47,600
Accounts receivable	41,600

Required:

- (a) Open all the appropriate accounts to record the reorganisation arrangements. (12 marks)
- (b) Prepare the balance sheet of Plummet Company on 1 October 2018 immediately after the reorganisation has been effected. (8 marks)
- (Total = 20 marks)**

Question FIVE

Ess, Tee and Vee who are in partnership sharing profits and losses 2:2:1, decide to dissolve the partnership on 30th September 2018 at which date their Balance Sheet was:

**Ess, Tee and Vee
Balance Sheet as at 30 September 2018**

<u>Non-Current Assets</u>	Sh.000	Sh.000
<u>At written down value:</u>		
Freehold Property		30,000
Equipment		<u>15,000</u>
		45,000
<u>Current Assets</u>		
Inventory	8,000	
Accounts receivable	4,500	
Bank	<u>2,100</u>	
		<u>14,600</u>
Total Assets		59,600
<u>Current liabilities:</u>		
Accounts payable		(3,000)
<u>Long-term liabilities:</u>		

Loan from Tee		<u>(2,000)</u>
Net Assets		<u>54,600</u>
<u>Financed by:</u>		
Capital Accounts		
- Ess	39,000	
- Tee	13,000	
- Vee	2,000	
Current Accounts		
- Ess	700	54,000
- Tee	(300)	
- Vee	200	
		<u>600</u>
		<u>54,600</u>

The partners were unable to sell the business as a going concern and disposed off the assets separately for the following sums:

	Sh.000
Freehold property	31,000
Equipment	4,800
Inventory	2,900

Debtors (Accounts receivable) paid in full and creditors gave discounts totaling sh.100,000. Dissolution expenses totaled sh.800,000.

Required:

Prepare all the accounts on dissolution.

(20 marks)