TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMMERCE

(Y III, SI)

BAC 4301: ADVANCED ACCOUNTING I

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: JULY 2014

TIME: 2 HOURS

INSTRUCTIONS:

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Five printed pages

QUESTION 1 (Compulsory)

a) i) Fahim of London consigns 10 cases of goods costing sh. 20,000 per case to Mola in Nairobi on 1st July 2013.

ii) Fahim pays sh. 25,000 for carriage and insurance for the whole consignment on 1st July 2013.

Fahim receives an interim account sales with a bank draft from Mola on 28th December 2013. It shows

iii) Mola has sold 8 cases of goods for sh. 40,000 each.

iv) Mola has paid a total of sh. 15,000 for landing charges and import duties upon receipt of the whole consignment.

v) Mola has paid selling costs in respect of the 8 cases sold, of sh. 16,000.

iv) Mola has deducted his commission of in respect of the 8 cases sold.

vii) Mola encloses bank draft.

Fahim now wishes to balance off his consignment account at his financial year end, 31st December 2013, and to transfer the profit to date to his profit and loss account.

Required:
Prepare all the necessary accounts in Fahim's books (show all your workings clearly).

(15 marks)

b) A retail business in Nairobi has a branch shop in Machakos for which it maintains ledger accounts. The main shop supplies the branch shop with goods for resale. The following balances are related to the branch for the year ended 31st March 2014.

	Sh. '000'
• Stock of goods 1st April 2013	2,800
• Goods transferred from Nairobi	12,000
• Goods returned to Nairobi	200
• Goods returned to Machakos from customer (at selling prices)	250
• Cash sales	13,300
• Credit sales	700
• Stock of goods at 31st March 2014	3,600

Required:

i) Open, post and balance the following accounts in Nairobi ledger, on the assumption that all goods are supplied to the branch at cost
Goods sent to Machakos
Branch stock A/c – Machakos **(5 marks)**

ii) The facts are precisely the same except that Nairobi invoices goods to Machakos at selling price which is cost plus 25%.

Required:
Prepare the same accounts as in i) above, using the "Memorandum column" method for the branch stock account. **(5 marks)**

iii) The facts are the same as in (ii) above.

Required:
Prepare the same accounts as in i) above together with a branch stock adjustment account to record the profit content. **(5 marks)**

QUESTION 2

Baba, Mama and Dada are partners sharing profits and losses 3:2:1 respectively. On 30th June, 2013, Baba retired and Kaka was admitted as a partner on 1st July 2013. The firm's balance sheet at 30th June, 2013, was:

	Sh. '000'
Assets	
Freehold premises	20,000
Plant	16,000
Equipment	2,100
Accounts receivable	2,700
Bank	6,400
	47,200
Equity + Liabilities	
Baba capital	20,000
Mama capital	17,000
Dada capital	7,000
Accounts payable	3,200
	47,200

For the purposes of the change in constitution it was agreed that the premises should be valued at sh. 22,000,000 the plant at sh. 13,000,000 and the debtors at sh. 2,500,000. Goodwill was at be valued at three years purchase of the average profits of the four years immediately preceding the balance sheet. These profits were:

	Sh. '000'
30.6.2010	6,000
30.6.2011	8,000
30.6.2012	10,000
30.6.2013	12,000

No entries were to remain in the books in respect of these transactions. The profit sharing ratios were to be equal in the new firm. Kaka was to pay sh. 20,000,000 into the firm, and Baba was to receive half the amount due to him, leaving the remainder on loan to the new firm.

Required:
Prepare
a) The revaluation account, and **(14 marks)**
b) The opening balance sheet of the new firm. **(6 marks)**

QUESTION 3

Miners Super Ltd acquired rights to extract mineral ore from the mines belonging to Jivanjee Ltd on the following terms:

a) Royalties shall be sh. 30 per ton of ore extracted.
b) Minimum royalty shall be sh. 120,000 per month.
c) Settlement will be made on monthly basis on the last date of each month.

The agreement came into effect on 1st May 2004. The following quantities of mineral ore were extracted by Miners Super Ltd during the first 5 months:

2004	**Output (in tons)**
May	2,000
June	3,000
July	4,000
August	4,600
September	5,000

Required:
Show the necessary accounts in the books of the tenant. **(20 marks)**

QUESTION 4

Chirume started business on 1st October 2012 selling computers of one standard type on hire purchase terms. During the year to 30th September 2013 he purchased computers at a uniform price of sh. 6,000 and sold 1,900 computers at a total price under hire purchase agreements of sh. 10,000 per computer, payable by an initial deposit of sh. 3,000 and 10 quarterly instalments of sh. 700.
The following trial balance was extracted from Chirume's books as at 30th September 2013.

	Dr. Sh. '000'	**Cr. Sh. '000'**
Accounts payable		840
Bank	1,063	
Capital		7,600
General expenses	1,027	
Drawings	400	
Non-current assets	1,000	
Purchases	12,000	
Cash collected from customers		8,360
Rent, rates and insurance	450	
wages	860	
	16,800	**16,800**

Chirume prepares his annual accounts on the basis of taking credit for profits (including interest) in proportion to cash collected from customers. The personal accounts of customers are memorandum records (i.e they are not part of the double entry system).

Required:

a) Prepare Chirume's hire purchase trading account and a profit and loss account for the year ended 30th September 2013, and **(12 marks)**

b) A balance sheet as at that date.
NB. Ignore depreciation of non-current assets. **(8 marks)**

QUESTION 5

Dalana Ltd is a manufacturing and trading entity with several overseas operations. One of its subsidiaries, Kigezi Ltd, operates in a country which experiences relatively high rates of inflation in its currency, the Kwacha. Most entities operating in that country voluntarily present two versions of their financial statements: One at historical cost, and the other incorporating current cost adjustments. Kigezi Ltd complies with this accepted practice. Extracts from the income statement adjusted for current costs for the year ended 30th September 2013 are as follows:

	Kwacha $ '000'	**Kwacha $ '000'**
Historical cost operating profit		750
Current cost adjustments:		
Cost of sales adjustment	65	
Depreciation adjustment	43	
Loss on net monetary position	16	
		124
Current cost operating profit		626

Required:

a) Identify and explain the defects of historical cost accounting in times of increasing prices. **(8 marks)**

b) Explain how each of the **THREE** current cost adjustments: in Kigezi Ltd's financial statements contributes to the maintenance of capital. **(12 marks)**