

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

## EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

## BCOM 311: ADVANCED FINANCIAL ACCOUNTING 1

STREAMS: BCOM Y3S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 23/03/2021

11.30 A.M – 1.30 P.M

## INSTRUCTIONS:

Answer question one and any other two questions

## QUESTION ONE

- (a) Explain the application of the rule in Garner vs Murray as pertains dissolution of partnership. [5 marks]
- (b) X Y and Z 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<sup>st</sup> October 2016 is as follows:

	Ksh '000'	ksh'000'		Ksh 000	ksh 000
Capital: X		4,000	Fixed assets at cost	20,000	
Y		4,000	Less depreciation	6,000	14,000
Z		<u>2,000</u>	Current assets		
Current liabilities		<u>10,000</u>	Stock	5,000	
Bank	13,000		Debtors	<u>21,000</u>	26,000
Creditors	17,000	<u>30,000</u>			
		<u>40,000</u>			<u>40,000</u>

Despite making good profits during the recent years they had become increasingly dependent on one credit customer filisika and in order to retain his custom they had gradually increased his credit limit until he owed ksh 18,000,000. It has now been discovered that filisika is insolvent

and that he is unlikely to repay 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) Stock is to be sold to Bahatika ltd for ksh 4,000,000
- (ii) The fixed assets will be sold for ksh 8,000,000 except for certain items with a book value of ksh 5,000,000, which will be taken over by X at an agreed valuation of ksh 7,000,000.
- (iii) The debtors except filisika are expected to pay their debts in full.
- (iv) The cost of dissolution will be ksh 800,000 discounts received from creditors will be ksh 500,000
- (v) Z is unable to meet his liability to the partnership out of his personal funds. The partners have agreed to apply the rule in Garner V Murray (1943) in relieving Z from his obligations.

**Required:**

The realization account and the partners capital accounts recording the dissolution of the partnership. [15 marks]

**QUESTION TWO**

Allan and Black entered into a joint venture to buy and sell computers. It was agreed that Allan should receive a commission of 2% on all sales in consideration for which he was to bear all losses from bad debts. Subject to this agreement, profits and losses were to be shared in the ratio 3:2 respectively.

On 2 January 2018 Allan purchased computers for ksh 4,692,000, for which he paid ksh 3,264,000 by cheque and accepted bills of exchange for ksh 544,000 and ksh 816,000.

On 3 January, Allan sent to black computers, which had cost ksh 1,870,000 and black paid ksh 2,380,000 to Allan.

On January 9, Allan sold goods to Brownie for ksh 285,600 and to Green for ksh 170,000 and they accepted bills of exchange for the amounts respectively due from them. Allan endorsed these bills to black who discounted them. Discounting charges amounted to ksh 10,000.

On 3 February, Allan sold goods for 1,224,000. On delivery, the customer rejected goods invoiced at ksh 61,200, and this goods were collected by black, who sold them to another customer for ksh 74,800.

On 11 February, Brownie met his bill, but green's bill was dishonored. Green was insolvent so the debt was deemed bad.

On March 5, Black paid the bill for ksh 544,000, which had been accepted by Allan, and Allan paid the second bill, ksh 816,000.

During March 2018, Allan sold the remainder of the goods in his possession for ksh 1,978,800, and black's sales amounted to ksh 2,312,000. Bad debts (apart from the amount due from green) were ksh 28,560 of which ksh 20,400 was in respect of sales by Allan and ksh 8,160 was in respect of sales by Black.

On 30 April 2018, the venture was closed. Black took over the stock in his possession at a value of ksh 340,000 and the party accountable paid the sum required to settle accounts between the ventures.

You are required to show:

- (i) The accounts, which would appear in the books of Allan and Black respectively to record the joint venture. [15 marks]
- (ii) Memorandum joint venture account showing the net profit. [5 marks]

**QUESTION THREE**

(a) Briefly explain the following terms as used when computing consequential loss claim:

- |       |                                      |           |
|-------|--------------------------------------|-----------|
| (i)   | Turnover of preceding financial year | [2 marks] |
| (ii)  | Annual turnover                      | [2 marks] |
| (iii) | Standard turnover                    | [2 marks] |

(b) Nakuru Ltd insured under a loss of profits policy ksh 16,000,000. The company's premises were partly destroyed by fire which took place on 1 May 2020 and the business resumed normal operations on 1 September 2020.

Given below is the information extracted from the books of the company relating to the policy:

1. Period of indemnity is six months
2. Net profit for preceeding financial year – ksh 4,800,000
3. Insured standing charges ksh 9,600,000
4. Uninsured cost of working ksh 1,600,000
5. Increased cost of working ksh 3,000,000
6. Savings in insured standing charges ksh 6,000.000
7. Reduction in turnover avoided through increase in cost of working –ksh 8,000,000
8. Financial year ends on 31 December.
9. The following are turnovers for four months ended 30 April, 31 August and 31 December respectively.

Year	Ksh	ksh	ksh
2019	12,000,000	40,000,000	28,000,000
2020	20,000,000	16,000,000	34,000,000

10. Owing reasons acceptable to insurers, the special circumstances clause recommended the following:

- Increase of annual and standard turnover by 10%
- Increase of rate of gross profit of 2%

**Required :**

A statement showing the calculation of the amount of the consequential loss claim.

[14

marks]

#### QUESTION FOUR

- (a) Differentiate between cum-dividend and ex-dividend investments. [4 marks]
- (b) Joho, carrying on a business as a trader in Likoni, Mombasa, finds himself insolvent, and on 15 August 2017 files his petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Ksh		Ksh
N Joho capital	1,200,000	Shop land and building	4,000,000
Mortgage on shop (land & building	3,000,000	Furniture and fitting	1,000,000
Loan I.C.D.C. Ltd	1,200,000	Stock of goods	575,000
Loan –Barclays Bank Ltd	600,000	Debtors	641,300
Loan co-operative bank ltd	200,000	N. Joho drawings	1,314,000
Loan Paul Nkobei	100,000	Cash on hand	2,000
Loan Mutiso Kuria	20,000		
Trade creditors	1,140,000		
NHIF,NSSF and PAYE	36,000		
Salaries and wages payable	18,000		
Bank overdraft	<u>18,000</u>		
	<u>7,532,400</u>		7,532,400

The following information is provided:

1. The trade creditors includes ksh 30,000 owing to Mombasa Municipal council in respect of rates in for the current period and a small loan from Joho's friend Waititu for ksh 10,000.
2. The amount owing for salaries and wages and statutory payroll deductions are for 2017.

3. There is 210,000 interest unpaid on the mortgage as at 15 August 2017, which has not been recorded in the books.
4. The loan from I.C.D.C ltd is secured by second mortgage on the shop (land and buildings) . The unrecorded interest owing as at 15 August 2017, was ksh 96,000.
5. The loan from the Co-operative bank ltd was obtained when Joho pledged his wholly owned piece of land as security. The value of the piece of land is ksh 300,000. There is no interest outstanding on his loan.
6. The interest on loan from Paul Nkobei was to vary with profits, but since the business has been operating at a loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank ltd.
8. Mutiso Kuria is Joho's brother in law
9. The value of the assets is estimated to be:

	Ksh
Shop –land and buildings	4,200,000
Furniture and fittings	800,000
Stock of goods	200,000

10. Of the debtors, ksh 400,000 are thought to be good and ksh 200,000 doubtful, of which ksh 150,000 should be collectable.
11. Joho's uncle died recently and he will be receiving ksh 50,000 as an inheritance
12. Joho has no personal creditors outside the business, but he has other personal assets, beside the piece of land, amounting to ksh 60,000, exclusive of household and personal effects.

**Required :**

- (a) A statement of affairs for Joho as at 15 August 2017 in good form. [10 marks]
- (b) Deficiency account [6 marks]