

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 311: ADVANCED FINANCIAL ACCOUNTING I

STREAMS: BCOM (ODEL)

TIME: 2 HOURS

DAY/DATE: TUESDAY 06/08/2019

8.30 A.M. – 10.30 A.M.

## INSTRUCTIONS:

## QUESTION ONE

- (a) Discuss the circumstances under which a partnership can be dissolved. (10 marks)
- (b) A, B, C, and D who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4: 3: 2: 1, had a serious disagreement on 15 January 2018 which necessitated dissolution of the partnership.

For the purpose of dissolution, their accountant extracted a balance sheet as at 1 February 2018 as follows:

	Sh. '000'	Sh. '000'
<b>Non-current assets:</b>		
Land and buildings		63,750
Plant and machinery		59,408
Furniture and fittings		<u>15,000</u>
		160,656
Investments		22,500
<b>Current assets</b>		
Inventory	47,610	
Debtors	28,808	
Balance at bank	<u>2,348</u>	<u>78,765</u>
Total assets		<u>239,423</u>
<b>Capital and liabilities</b>		
Capital account A		30,000

	B	52,500
	C	30,000
	D	<u>22,500</u>
		135,000
General reserves		52,500
<b>Current liabilities</b>		
Creditors		<u>51,923</u>
		<u>239,423</u>

**Additional information:**

1. The assets, which were sold on piecemeal basis, realized cash as follows:

		Sh. '000'
10-Feb-18	Inventory (partial)	26,250
16-Feb-18	Debtors (partial)	21,990
27-Feb-18	Investments	18,150
03-Feb-18	Furniture and fittings	15,000
20-Feb-18	Land and building	52,500
	Debtors (partial)	3,750
	Inventory (balance)	20,625
15-Feb-18	Plant and machinery debtors (balance)	<u>49,200</u>
		<u>207,465</u>

2. The realization expenses which amounted to Sh.1 million were paid on 15 April 2018.

**Required:**

Using the maximum possible loss method, prepare:

- (a) Statement showing how the proceeds should be shared.  
 (b) Realization account and capital account to close off the book of the partners.  
 (20 marks)

**QUESTION TWO**

A fire in the premises of Biashara Limited destroyed a substantial part of the stock on Friday, 15 May 2012. It also destroyed some of the office records. The company has a loss of stock insurance policy under which the amount insured is Sh. 1,680,000. The amount of the claim for stock lost in the fire will have to be calculated from the information available. For the financial year ended 31 December 2011, the following figures were included in the profit calculations:

	Sh.
Sales	8,120,000
Purchases	5,920,000
Stock 1 January 2011	1,400,000
Stock 31 December 2011	1,600,000

The management has provided the following additional information:

- (i) The stock at 1 January 2011 included Sh. 120, 000 representing goods which had been reduced in value at the stocktaking and were all sold during 2011 for the same reduced amount.
- (ii) The stock at 31 December 2011 included Sh. 200,000 representing goods which were reduced to half-cost at the stocktaking. Of these, Sh 120,000 were sold at the reduced amount in January 2012, Sh. 40,000 were scrapped in February 2012 without any revenue at all, and the balance had not been disposed off at the time of the fire.
- (iii) The cost price of stock at 15 May 2012 unaffected by fires was Sh. 640,000 but the rest of the stock was completely destroyed and this included the balance of the marked-down stock referred to in (ii) above.
- (iv) The mix of products sold up to 15 May 2012 was substantially the same as for 2011. No writing-down of stock values takes place except at annual stocktaking and with the exception of the items mentioned, there have been no alternations to normal selling prices.
- (v) Purchases from 1 January to 15 May 2012 totalled Sh. 3,910,000. Sales for the same period totalled Sh. 3,800,000 and there were returns from customers of Sh. 80,000.

**Required:**

Calculate the amount which the company should claim for the loss of stock. (20 marks)

**QUESTION THREE**

- (a) During the month of March 2001, a manufacturing firm advertised in the local press that it had bonded goods which were to be auctioned. On reading the advertisement, Mr. Kamau and Mr. Murangiri agreed to pool their resources together and participate in the auction. They agreed to share the joint venture profits and losses. Kamau and Murangiri in the ratio of 3: 2 respectively.

	<b>Kamau Sh.</b>	<b>Murangiri Sh.</b>
Sales	3,840,000	2,520,000
Travelling expenses	392,400	555,600
Advertising	123, 600	109,200
City council charges	102,000	84,000
Salaries and wages	57,600	78,100
Sundry expenses	70,800	34,800
Purchases	1,920,000	1,320,000
Telephone expenses	33,700	28,900
Insurance	12,300	11,200
Transportation of good	157,000	121,500

Settlement between Kamau and Karanja was done by cheque on 30 April 2001.

**Required:**

Memorandum joint venture account. (12 marks)

- (b) (i) Explain the main differences between the balance sheet and a statement of affairs. (4 marks)  
(ii) Discuss the classification of liabilities in the context of bankruptcy proceedings.

**QUESTION FOUR**

- (a) Explain the following terms as used in Investment accounting
- (i) Investment with fixed rate of return and fluctuating securities. (3 marks)
  - (ii) Cum-dividend and Ex-dividend. (3 marks)
  - (iii) Rights issue and Bonus issue (3 marks)

(b) Investment Ltd bought 600,000, 10% loan stock of Faida Ltd on 1<sup>st</sup> March 2017 at 90 cum-interest. Interest is payable semi-annually on 30<sup>th</sup> June and 31<sup>st</sup> December every year. Show the entries in investment Ltd ledger account for the year ended 31<sup>st</sup> December 2017. (5 marks)

(c) ABC Ltd acquired 2000 ordinary shares at sh. 10 each from sell out Ltd on 1<sup>st</sup> April 2016 at a cost of Sh. 240, 000. On 1<sup>st</sup> August 2016, sell out Ltd made a bonus issue of 1 share for every 5 shares held. On 7<sup>th</sup> October 2016, a dividend which applied to the bonus shares also at 6% was received for the year ended 31<sup>st</sup> Au 2016. On 30<sup>th</sup> October 2016, ABC Ltd sold 600 shares for Sh. 6,900.

**Required:**

Prepare the investment account for ABC Ltd and show the balance as at 31<sup>st</sup> October 2016. (6 marks)

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