

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 311: ADVANCED FINANCIAL ACCOUNTING 1

STREAMS:BCOM Y2S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 4/12/2019

2.30 P.M – 4.30 P.M

INSTRUCTIONS

Answer question one and any other two questions

1. (a) Briefly explain the following terms as used when computing consequential loss claim:
 - (i) Turnover of proceeding financial year [2 marks]
 - (ii) Annual turnover [2 marks]
 - (iii) Standard turnover [2 marks]
- (b) Ngata 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 2000 and the business resumed normal operations on 1 September 2000.

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 proceeding financial year sh 4,800,000
3. Insured standing charges ksh 9,600,000
4. Unsecured standing charges ksh 1,600,000
5. Increased cost of working ksh 3,000,000
6. Savings in insured standing charges ksh 600,000
7. Reducing in turnover avoided through increase in cost of working ksh 8,000,000
8. Financial year ends on 31st December
9. The following are turnovers for four months ended 30 April, 31 August and 31 December respectively.

Year	Ksh	Ksh	Ksh
1999	12,000,000	40,000,000	28,000,000
2000	20,000,000	16,000,000	34,000,000

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

- Increase of annual and standard turn over 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]

(c) distinguish between cum dividend and ex dividend.

[6 marks]

(d) Explain the rule in Garner vs Murray during dissolution of a partnership.

[4 marks]

QUESTION TWO

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. Michael Karanja and Mr. Joseph Abuya agreed to pool their resource together and participate in the auction. They agreed to share the joint venture profits and losses, Karanja and Abuya in the ratio of 3:2 respectively.

Karanja sent Abuya a cheque of ksh 2,400,000 on 15 March 2001 to provide him with funds for Karanja’s participation in the joint venture.

Karanja and Abuya successfully bought goods and managed to sell all of the goods purchased by the end of April 2001. Their cash transactions appeared as follows.

	Karanja	Abuya
	Ksh	Ksh
Sales	3,840,000	2,520,000
Travelling expenses	392,000	555,600
Advertising	123,600	109,200
City council charges	102,000	84,000
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 goods	157,000	121,500

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

Required :

- (a) Memorandum joint venture account [6 marks]
 (b) Joint venture account with Abuya in Karanja's ledger. [7 marks]
 (c) Joint venture account with Karanja in Abuya's ledger [7 marks]

QUESTION THREE

Shida Tupu Ltd has been financially crippled for the past few years and one of its creditors has petitioned to the court for the company to be wound up to that effect. You have been appointed a liquidator at a cost of ksh 5,000,000 and the following information was availed.

Statement of financial positions as at 30 th June 2015

	Ksh '000'	Ksh '000'
Non current assets		
Land and buildings		750,000
Furniture and equipment		480,000
Motor vehicle		90,500
Good will		<u>60,500</u>
		1,381,500
Current assets		
Inventories	239,000	
Trade receivables	<u>1,019,000</u>	<u>1,258,000</u>
		2,639,500
		=====
Equity and liabilities capital and reserves		
Ordinary share capital (ksh 10 par value)		455,000
9% cumulative preference share capital (ksh 10 par)		300,000
Revaluation reserves		455,000
Revenue reserves		<u>(610,000)</u>

Owners equity		600,000
Non current liabilities		
10% debentures (secured on land & building)		600,000
Current liabilities		
Bank overdraft	409,500	
Trade payables	<u>1,030,000</u>	<u>1,525,000</u>
		2,639,500
		=====

Additional information ;

- (i) Preference dividends were two years in arrears
- (ii) Good will was considered valueless
- (iii) Preference shares rank in priority to ordinary shares on winding up
- (iv) The assets realize the following in disposal.

	Ksh '000'
Land and building	780,000
Furniture and equipment	450,000
Motor vehicles	60,000
Inventories	220,000
Trade receivables	889,000

Required : Liquidation statement as at 30th June ,2015.

[15 marks]

QUESTION FOUR

The following was the partnership trial balance as at 30th April 2016:

	Ksh	Ksh
Fixed capital accounts		
Rotich		750,000
Sinei		500,000
Current accounts		
Rotich		400,000
Sinei		300,000
Leasehold premises (purchase 1 May 2015)	2,250,000	
Purchases	4,100,000	
Motor vehicle (cost)	1,600,000	
Balance at bank	820,000	
Salaries (including partners' drawings)	1,300,000	
Stocks :30 April 2015	1,200,000	
Furniture and fittings (cost)	300,000	
Debtors	225,000	
Accountancy and audit fees	105,000	
Wages	550,000	
Rent, rates, and electricity	310,000	
General expenses (ksh 352,400 for the six months to 31 October 2015)	660,000	
Cash introduced –Tonui		1,250,000
	Ksh	Ksh
Sales (ksh 3,500,000 to 31 October 2015)		8,750,000
Accumulated depreciation: 1 May 2015		
Motor vehicle		300,000
Furniture and fittings		100,000
Creditors	-----	<u>1,070,000</u>
	13,420,000	13,420,000
	=====	=====

Additional information ;

1. On 1 November 2015 Tonui was admitted as a partner and from that date profits and losses were to be shared on the ratio 2:2:1 . For the purpose of this admission the value of goodwill was agreed at ksh 3,000,000. No account for goodwill was to be maintained in the books, adjusting entries for transactions between the partners being made in their current accounts. On that date, Tonui introduced ksh 1,250,000 more into the firm of which ksh 375,000 comprised his fixed capital and the balance was credited to his current account.

2. Interest on fixed capitals was still to be allowed at the rate of 10% per annum after Tonui's admission. In addition, after Tonui's admission, no interest was to be charged or allowed on current accounts.
3. Any appointment of gross profit was to be made on the basis of sales. Expenses, unless otherwise indicated were to be apportioned on a time basis.
4. Charge was to be made for depreciation on motor vehicle and furniture and fittings at 20% and 10% per annum respectively, calculate on cost.
5. On 30 April, the stock was valued at ksh 1,275,000
6. Salaries included the following partners' drawing ;
Rotich ksh 150,000, Sinei ksh 120,000, and Tonui 62,500
7. A difference in the books of ksh 48,000 had been written off at 30 April 2001 to general expenses, which was later found to be due to the following clerical errors:
 - Sales returns of ksh 32,000 had been debited to sales returns but had not been posted to the account of the customer concerned;
 - The purchases journal had been under cast by ksh 80,000
8. Doubtful debts (for which full provision was required) amounted to ksh 30,000 and ksh 40,000 as at 31 October 2015 and 30 April 2016 respectively.
9. On 30 April 2016, rates and rent paid in advance amounted to ksh 50,000 and provision of ksh 15,000 for electricity consumed was required.

Required :

- (a) Trading and profit and loss account for the year ended 30 April 2016. [9 marks]
 - (b) Partners current accounts for the year ended 30 April 2016 [4 marks]
 - (c) Statement of financial position as at 30 April 2016. [7 marks]
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