

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 311: ADVANCED FINANCIAL ACCOUNTING I

STREAMS: BCOM Y3S1

TIME: 2 HOURS

DAY/DATE: THURSDAY 7/12/2017

2.30 A.M - 5.30 P.M.

INSTRUCTIONS:

- Answer ALL Questions
- Show all your workings
- Do not write on the question paper

QUESTION ONE

(a) What are the differences between a balance sheet and a statement of affairs? [10 Marks]

(b) Shadrack, Meshack and Abednego are in partnership sharing profits and losses in the ratio 4:3:2 respectively. Their financial positions as at 31<sup>st</sup> December 2016 was:

Assets:	
Plant and Machinery	6,500,000
Inventory	6,000,000
Accounts receivable	5,000,000
Cash at bank	<u>1,800,000</u>
Total Assets	<u>19,300,000</u>
Equity a& Liabilities:	
Accounts Payable	5,800,000
Capital Accounts: Shadrack	6,000,000
Meshack	4,500,000
Abednego	<u>3,000,000</u>
Total Equity & Liabilities	<u>19,300,000</u>

On 1<sup>st</sup> January 2017, they decided to dissolve their partnership and the assets were realized as follows:

31 <sup>st</sup> January 2017	Accounts receivables	4,500,000
28 <sup>th</sup> February 2017	Inventory	5,400,000
31 <sup>st</sup> March 2017	Plant & Machinery	1,800,000
30 <sup>th</sup> April 2017	Plant & Machinery	3,600,000

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The realization expenses amounted to Kshs.500,000 and final dissolution and settlement was done on 30<sup>th</sup> April 2017

### Required:

Prepare a statement showing the distribution of cash under the piecemeal distribution method.

[10 Marks]

(c) Samsam Ltd obtained a license to produce a low cost smart phone for five years. The terms of the license contract were:

A royalty of Sh.400 to be paid on each phone sold

A minimum rent of Sh.200,000 per annum

A right to recoup any shortworkings in the following two years.

The number of phones sold were:

2015: 450 units

2016: 540 units

### Required:

Prepare the following accounts in the books of Samsam Ltd

(i) Royalties payable a/c

(ii) Shortworkings a/c

(iii) Landlord a/c

[10 Marks]

## QUESTION TWO

(a) Explain the following terminologies in relation to accounting for long contracts:

(i) Cost plus contract

[1 Mark]

(ii) Retention money

[1 Mark]

(iii) Direct expenses

[1 Mark]

(b) Bidii Ltd bought Sh.200,000, 10% loan stock of Lalia Ltd on 1<sup>st</sup> June 2016 at 90 ex-interest. Interest is payable half yearly on 30<sup>th</sup> June and 31<sup>st</sup> December. Show the entries in Bidii Ltd's ledger for the year ended 31<sup>st</sup> December 2016. Ignore income tax. [7 Marks]

(c) Rain and Sun run a joint venture on the basis that the gains and losses are divided equally. They do not have bank accounts and do not have any books that open a special account to record these transactions. Each of them will record transactions respectively. The following are the transactions during year 2017.

January 29	Rain bought goods by cash a Sh.2,100,000
February 18	Rain paid Sh.320,000 for the freight and insurance
March 12	Sun paid Sh.102,000 for storage expenses
March 15	Sun paid Sh.150,000 for freight and insurance
May 17	Sun sold goods for cash amounting to Sh.3,850,000
May 24	Sun bought two small machines worth Sh.1,270,000 each for cash
June 25	Rain paid installation costs worth Sh.117,000

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July 18	Rain paid repairs and maintenance costs at Sh.189,000
July 26	Sun paid Sh.350,000 for wages
August 16	Rain sold a machine for cash Sh.1,000,000
August 23	Rain bought goods on credit at Sh.1,450,000
September 17	Sun paid Sh.104,000 for printing, stationery and postage
September 27	Sun sold goods for cash worth Sh.3,220,000

They decided to discontinue the joint venture on 30<sup>th</sup> September 2017.

**Required:**

The Memorandum joint venture account and the respective ledger accounts for Rain and Sun.

[10 Marks]

**QUESTION THREE**

(a) Explain the two methods recommended by IAS 11 for accounting for long term contracts.

[4 Marks]

(b) Bargains Ltd insured under a consequential loss policy for Sh.16,000,000. The Company's premises were partly destroyed by fire which took place on 1<sup>st</sup> May 2017 and the business resumed normal operations on 1<sup>st</sup> September 2017.

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

Period of indemnity	6 months
Net profit for preceding financial year	Sh.4,800,000
Insured standing charges	Sh.9,600,000
Uninsured standing charges	Sh.1,600,000
Increased cost of working	Sh.3,000,000
Savings in insured standing charges	Sh.600,000
Reduction in turnover avoided through increase in cost of working	8,000,000
Financial year ends on 31 December	

The following are turnovers for four months ended 30 April, 31 August and 31 December respectively.

Year	Sh.	Sh.	Sh.
2016	12,000,000	40,000,000	28,000,000
2017	20,000,000	16,000,000	34,000,000

The insurer further agreed that the following be considered

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

**Required:**

Calculate the amount of the consequential loss policy

[16 Marks]

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