CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 413: SPECIALIZED FINANCIAL ACCOUNTING TECHNIQUES

STREAMS: BCOM (Y4S1) ODEL **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 07/08/2024 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS

- **Answer Question One and any other Two Questions.**

QUESTION ONE

a) Fingers Ltd leased a coal mine from Hand Ltd at a minimum rent of Sh.300,000 per annum on which royalty fees was payable at Sh. 10,000 per tonne. There was a stipulation that short workings could only be recouped in the first three years of the lease.
The outputs in the first four years of the lease were 16 tonnes, 26 tonnes, 42 tonnes and 36 tonnes respectively. Required: Show the entries to be made in the books of Finger Ltd in the first four years assuming the lease.

i. Analysis sheet (5 marks)
ii. Royalties payable A/C (4 marks)
iii. Short workings A/C (4 marks)
iv. Landlord A/C (6 marks)

b) Explain three methods of writing off Hire purchase interest in hire purchase contracts (6 marks)

c) Differentiate between credit back price, charge out price and Depreciated Value. (5 marks)

QUESTION TWO

a) ABC limited set up a branch in Buruburu, Nairobi, on 1 st January 2022 to expand its volume of business. The accounts for the branch are maintained in the HO Ledger. Goods sent to the branch are invoiced to the branch at selling price, which is HO cost plus 33 1/3 ^{0}/0 of markup

By 31st December 2002, goods with a selling price of Shs 4m had been sent to the branch; goods with a selling price of Shs 200,000 were unsuitable for sale in this branch and were returned to the head office. In the year cash sales amounted to Shs. 2,800,000 and credit sales amounted to Shs 600,000 and closing stock on 31 December 2022 was (at selling price) Shs 400,000.

The Head Office and branch expenses are Shs 2,200,000 and Shs 810,000 for the year to 31 December 2022 respectively.

Required Accounts ledgers in the head quarters

a) Buruburu branch stock account. (Two column Analysis) (7 marks)
b) Goods sent to branch account (3 marks)
c) Profit and Loss Account (5 marks)
d) Explain the purpose of Branch and departmental accounts (5 marks)

QUESTION THREE

a) Patel Investments Ltd acquired a motor vehicle by hire purchase on 1 January 2022 from Isuzu Nairobi. The details for the purchase are as follows.

Purchase price in cash	sh. 8,000,000
Hire purchase price	sh. 10,080,000
Payments: 1st deposit	sh 2,400,000

Installments be done in 12 monthly installments of sh 640,000.

Due to high cost of monthly transaction costs the Patel negotiated to pay these installments in quarterly basis and they agreed with Isuzu Nairobi

Required: Using rule 78 compute the interest to be paid for each of the four quarters (4 marks)

b) Markel Ltd sells different farm machines. On 1st January 2023, they sold a machine to Marks farm on hire purchase agreement. He made a down payment of Ksh 160,000 and agreed to pay

15 equal instalments on monthly basis of Ksh 18,000 each. The cash price of the machine was Ksh 382,000.

The interest earning is on straight line method. The depreciation is charged on straight line method at 20% p.a.

The company closes the books on 3 I St December every year.

Required

Machine Account	(2 marks)
Provision for Depreciation Account	(2 marks)
HP supplier (Markel Ltd)	(4 marks)
HP Interest Suspense Account	(4 marks)
Extract of P&L Account	(2 marks)
Extract of Bank Account	(2 marks)

QUESTION FOUR

a) Explain the benefits of hire purchase to an organization as compared to outright purchase by cash (4 marks)

b) Differentiate between Credit Sales and Hire purchase. (4 marks)

c) A firm sells its products in containers purchased at Sh.20 each. Customers are charged at Sh.24 per container and are allowed sh. 16 for each container returned in good time. For stock taking purposes, all containers in the factory and in the hands of customers are valued at sh. 14 each.

From the following information, draw up the containers stock account and the containers suspense A/C for the year ended 31 Dec 2023:

In the factory at 1 Jan 2023	9,000 containers
With customers at 1 Jan 2023 (Returnable)	7,200 containers
With customers at 31 Dec 2023 (Returnable)	5,800 containers
Purchased during the year ended 31 Dec 23	12,000 containers
Sent to customers during the year	20,000 containers
Returned back by customers during the year	13,600 containers.

Required

i. Containers stock account for the year ended on 31st Dec 2023 (5 marks)

ii. Containers suspense account for the year ended on 31st Dec 2023 (4 marks)

iii. Profit reconciliation for the year as a result of these transactions. (3 marks)

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