CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS
EMBU CAMPUS
EXAMINATION FOR THE AWARD OF BACHELOR OF COMMERCE
BCOM 311: ADVANCED FINANCIAL ACCOUNTING 1
STREAMS: BCOM Y3S1 **TIME:2 HOURS**
DAY/DATE: THURSDAY 07/08/2025 **11.30A.M. –1.30 P.M**

INSTRUCTIONS:
- Answer Question ONE and Other TWO Questions
- Do not write on the question paper

QUESTION ONE (30 MARKS)

a) In the context of accounting for insolvency, distinguish between statement of affairs and statement of financial position (8 marks)

b) Explain the application of the rule in Garner vs Murray as pertains dissolution of partnership (4 marks)

c) A, B and C are partners who share profits and losses in the ratios 5:3:2. On 1st April 2024, they dissolved the partnership. A statement of financial position prepared on that day reflected the following balances:

A, B and C Partnership
Statement of Financial Position as at 31st April 2024

	Sh.
Non-Current Assets	
Motor vehicle	27000
Furniture and fittings	20000
	47000
Current assets	
Inventory	9000
Sundry debtors	6800
Cash at hand	2000
	17800
Financed by:	
Capital accounts: A:	25000
B:	13500
C:	7200
General reserve	4500
	50200

Non-Current Liabilities	
Loan from partner C	4600
Current Liabilities	
Trade creditors	10000
	64800

Additional information;

i) To achieve an equitable distribution of sale proceeds it was agreed that the general reserve would be shared between the partners in the profit-sharing ratio.

ii) The assets were sold as follows;

Motor vehicles realized sh.28,000
All the debtors paid amount due to them
Stocks were sold for sh. 7,600
Furniture and fittings sold at sh.21,500

iii) Dissolution expenses amounted to sh. 1,200

Required:

(i) Realization account (6 marks)
(ii) Partners' capital accounts (7 marks)
(iii) Bank account (5 marks)

QUESTION TWO (20 MARKS)

a) Discuss the classification of liabilities in the context of bankruptcy proceedings (6 marks)

b) The premises of Mabuyu ltd were partially destroyed by fire on 1st March 2023 and as a result, the business was practically disorganized up to 31st August 2023. The company is insured under a loss of profit policy for sh. 165,000 having an indemnity period of 6 months. The following information was extracted:

Actual turnover during the period of dislocation. (1/3/2023 to 31/8/2023)	Sh. 80,000
Turnover for corresponding period (dislocation) in the 12 months immediately before the fire (1/3/2022 to 31/8/2022)	Sh. 240,000
Turnover for the 12 months immediately preceding the fire (1/3/2022 to 28/2/2023)	Sh. 600,000
Net profit for the last financial year	Sh. 90,000
Insured standing charges for the last financial year	Sh. 60,000
Uninsured standing charges	Sh. 5,000
Turnover for the last financial year	Sh. 500,000

Additional information:

i) Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover.

ii) The company incurred additional expenses amounting to sh. 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only sh. 55,000.

iii) There was a saving during the indemnity period of sh. 2,700 in insured standing charges as a result of the fire.

Required: Compute claim under a consequential loss (loss of profit) policy (14 marks)

QUESTION THREE (20 MARKS)

a) Distinguish between the following terms in the context of accounting for insurance claims

   i) Actual turnover and standard turnover (4 marks)

   ii) Annual turnover and short sales (4 marks)

b) Radi and Jua enered into a joint venture in which they agreed to share profits and losses equally. Below is a summary of information for the period ended 30th June2020.

Particulars	Radi (sh. "000")	Jua (sh. "000")
Annual purchases	120,000	100,000
Direct expenses	4,000	3,000
Annual sales	520,000	400,000
Other expenses	38,000	27,000

Additional information;

1. Radi was unable to sale good worth sh. 50,000,000 in which they agreed he should take as his personal goods
2. There was no stock as at the start of the accounting period and any balance remaining at the end of the period was to be carried forward
3. The venturers agreed to transfer 15% of sales to a children's home operated by their church.

Required:

i) Joint venture accounts as the would appear in the books of Radi and Jua (8 marks)

ii) A memorandum joint venture account (4 marks)

QUESTION FOUR (20 MARKS)

Njuguna Mwandawiro, carrying on a business as a trader in Likoni, Mombasa, finds himself insolvent, and on 15 August 2024 files his petition in bankruptcy. The following balances are extracted from the books of his business on that date.

	Sh		Sh
N. Mwandawiro Capital	1,200,400	Shop – land and buildings	4,000,000
Mortgage on shop (land and buildings)	3,000,000	Furniture and fittings	1,000,000
		Stock of goods	575,100
Loan – I.C.D.C. Ltd.	1,200,000	Debtors	641,300
Loan – Barclays Bank Ltd.	600,000	N. Mwandawiro drawings	1,314,000
Loan – Co-operative Bank Ltd.	200,000	Cash on hand	2,000
Loan – Paul Nkobei	100,000		
Loan – Mutiso Kuria	20,000		
Trade creditors	1,140,000		
N.H.I.F., N.S.S.F. and P.A.Y.E.	36,000		
Salaries and wages payable	18,000		
Bank overdraft	18,000		
	7,532,400		**7,532,400**

The following information is provided:

1.The trade creditors includes Sh.30,000 owing to Mombasa Municipal Council in respect of rates in for the current period and a small loan from Mwandawiro's friend Waititu for Sh. 10,000.
2.The amount owing for salaries and wages and statutory payroll deductions are for 2024.
3.There is 210,000 interest unpaid on the mortgage as at 15th August 2024, which has not been recorded in the books.
4.The loan from I.C.D.C. Ltd. is secured by a second mortgage on the shop (land and buildings). The unrecorded interest owing as at 15th August 2024 was Sh.96,000.
5.The loan from the Co-operative Bank Ltd. was obtained when Mwandawiro pledged his wholly owned piece of land as security. The value of the piece of land is sh.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 beeb 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 Mwandawiro's brother-in-law.
9.The value of the assets is estimated to be:

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

10.Of the debtors, Sh.400,000 are thought to be good and Sh.200,000 doubtful, of which Sh.150,000 should be collectable.
11.Mwandawiro's uncle died recently and he will be receiving Sh.50,000 as an inheritance.

12.Mwandawiro has no personal creditors outside the business, but he has other personal assets, beside the piece of land, amounting to Sh.60,000, exclusive of household and personal effects.

Required:

i). A statement of affairs for Njuguna Mwandawiro as at 15th August 2024 (16 marks)

ii.A deficiency account as at 15th August 2024 (4 marks)
