MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING I

DATE: 26/3/2021 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (30 MARKS): COMPULSORY

a) Briefly explain FOUR types of partners in a partnership form of business. (8 marks)

b) Differentiate between Historical Cost Accounting and Current Purchasing Power Accounting.
(4 marks)

c) The following transactions took place for a government unit for the month of September 2020.

		Sh.
Sept 02	Opening cash balance: Cash	4,000
	Bank	25,000
Sept 02	Received a cheque in respect of trade licence	62,500
Sept 03	Paid Peter & Sons (cheque) for goods supplied	20,000
Sept 05	Cash received in respect fees	2,500
Sept 08	Paid telephone charges	8,700
Sept 11	Paid AB Limited by cheque	52,000
Sept 14	Paid cash to James Burton	2,800
Sept 18	Received cheque for licences	210,000
Sept 22	Paid wages in cash	5,000
Sept 28	Kept a cash balance of Sh. 10,000 and banked the rest.	

Required: Prepare a cashbook for the government unit. (10 marks)

d) A firm bought some building at a total cost of Sh. 1,000,000 on 1 January 2018. The depreciation charge is on straight line basis for fifty years while the capital allowance for the first year is 3% on cost. As at 3` December 2018 the building was revalued to Sh. 1,000,000.

Required:

Compute the carrying amount, the tax base and the temporary difference of the building indicating the temporary difference arising due to revaluation. (8 marks)

QUESTION TWO (20 MARKS)

Akinyi and Chinedu were in partnership sharing profits and losses in the ratio of 3:2 respectively. Their statement of financial position as at 31 December 2018 was as follows.

Akinyi & Chinedu Enterprises
Statement of Financial Position
As At 31 December 2018

Assets:		**Sh. "000"**
Non-Current Assets		
Plant & Machinery		2,800
Fixtures & Fittings		400
Investments		1,000
		4,200
Current Assets		
Inventory		600
Trade receivable	2,000	
Provision for bad debts	(100)	1,900
Bank		1,150
Total Assets		**7,850**
Capital & Liabilities		
Capital & Reserves		
Capital: Akinyi		800
Chinedu		500
Reserves		1,000
Accumulated Profits		(750)
Owners' equity		1,550
Non- Current Liabilities		
Loan from Akinyi		1,500
Loan from KCB		1,000
Current Liabilities		

Creditors	3,800
	7,850

Additional information:

On 1 January 2019, the partner's decided to dissolve the business after serious disagreements and the following information is also available.

1. Akinyi took over the investments at Sh. 800,000 and also agreed to pay the loan from KCB
2. The assets realized the following amounts:

	Sh. "000"
Stock	500
Trade receivable	1,850
Fixtures & Fittings	450
Plant & Machinery	2,500

3. Dissolution expenses amounted to Sh. 110,000
4. Creditors were paid in full less 2 ½ % cash discount.
5. The loan from Akinyi was paid in full.

Required:

a) Realization Account (10 marks)

b) Capital Account (5 marks)

c) Bank Account (5 marks)

QUESTION THREE (20 MARKS)

a) Explain FIVE circumstances under which a legacy may fail. (10 marks)

b) State FIVE users of public sector accounting and explain their information needs. (10 marks)

QUESTION FOUR (20 MARKS)

Nyoike, Kemei, Lasoi and Mutuku, who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4:3:2:1, had serious disagreements on 15 January 2020 which necessitated the dissolution of the partnership. For the purpose of dissolution, their accountant extracted a balance sheet as at 1 February 2020 as follows:

	Sh.	Sh.
Non – Current assets		
Land and Buildings		21,250,000
Plant and Machinery		19,802,500
Furniture and Fittings		7,500,000
Investments		5,000,000
		53,552,500
Current Assets		
Inventory	15,870,000	
Debtors	9,602,500	
Balance at Bank	782,500	26,255,000
		79,807,500
Capital and Liabilities		
Capital accounts: Nyoike		10,000,000
Kemei		17,500,000
Lasoi		10,000,000
Mutuku		7,500,000
		45,000,000
General reserves		17,500,000
Current liabilities		
Creditors		17,307,500
		79,807,500

Additional information:

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

Date	**Details**	**Sh.**
10 February 2020	Inventory (partial)	8,750,000
16 February 2020	Debtors (partial)	7,330,000
27 February 2020	Investments	6,050,000
03 March 2020	Furniture and Fittings	5,000,000
20 March 2020	Land and Buildings	17,500,000
	Debtors (partial)	1,250,000

15 April 2020	Inventory (balance)	6,875,000
	Plant & Machinery	16,400,000
	Debtors (balance)	877,500

2. The partners agreed to set aside Sh. 1.25 million to meet realization expenses. Any cash available for distribution thereafter was to be shared immediately the creditors were paid in full.
3. The realization expenses which amounted to Sh. 1million were paid on 15 April 2020.
4. The rule of Garner vs Murray was applied where necessary.

Required: Using the maximum possible loss method, prepare;

a) Cash distribution Schedule (12 marks)

b) Realization account, capital account and bank account to close off the books of the partnership. (8 marks)

QUESTION FIVE (20 MARKS)

a) ABC Ltd acquired a plant at a cost of 3.0 million on January 2015.The plant is depreciated over its useful life of five years. Capital allowances on the plant were as follows.

Year	**Capital Allowance (%)**	**Tax Rate (%)**
2015	40	30
2016	25	25
2017	25	35
2018	10	40
2019	-	20

Required: Calculate the current tax for each year (10 marks)

b) Explain the following terms:

i. Originating timing difference

ii. Reversing timing difference

iii. Deferred tax

iv. Current tax

v. Tax base (10 marks)