MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (ACCOUNTING OPTION)

BAC 402: SPECIALISED FINANCIAL ACCOUNTING TECHNIQUES

DATE: 10/8/2021 **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Mwelu traders Ltd sells most of its goods through consignees. One of the consignees is Bali enterprises ltd who operates in Mombasa. Bali enterprises ltd is entitled to a commission of 5% on sales. Below are the transactions carried out between Mwelu trader's ltd and Bali enterprises Ltd for the three months ended 31/102/2002.

August

- A consignment of 500 bicycles each costing sh.4, 000 was sent to Bali Ent. Ltd.
- Mwelu traders Ltd paid packing costs Sh.80,000, freight sh.100,000 and insurance sh.40,000
- Bali enterprises ltd paid carriage – in costs of sh.18,000 from the railway station to the trading premises
- Bali enterprises ltd also paid sh.12,000 with respect to off-loading the bicycles

September

- Bali Enterprises Ltd. Sold 300 bicycles at sh.6000 each and paid carriage outward cost of sh.30,000
- In order to sell the remaining 200 bicycles, they were fitted with head lamps at a total cost of sh.50,000 the amount being paid by Bali enterprises Ltd
- Bali Ltd paid storage costs of Sh.18,000 and advertisements costs of sh.20,000

October

- Bali enterprises ltd sold 160 bicycles at a Sh.6,500 each
- Bali enterprises ltd sent account sales to Mwelu traders Ltd accompanied by a cheque for sh.2,150,000 after deducting its commission and payments on behalf of the consignor the balance being as a debt due to Mwelu Traders Ltd. Prepare separate trading and profit and loss accounts for consignment sales made through each consignee required.

  i. Consignment account in the books of Mwelu traders (5 marks)

  ii. Mwelu traders account in the books of Bali enterprises Ltd (5 marks)

b) Brent Ltd bough sh.10, 000, 3% government stock at a 40 ex div on 1/1/2016 the cheque for the stock sh.4000 plus brokerage charges sh.100 being sh.4100. The interest is received on 31/3/, 30/6, 30/9 and 31/12 2016. During 2017, interest is received on 31/3, and all the stock is sold for 43 cum-div on 31/5, the cheque being sh.4, 190 made up of sh.4, 300 total proceeds less sh.110 brokerage charges. The financial year ends on 31/12. Show the entries in the investment account for the years ended December 2016 and 2017 (8 marks)

c) Chagua Ltd whose lead office is at Cardiff, operates a branch at Swansea. All goods are purchased by head office and invoiced to and sold by the branch at a cost plus 331/3% . Other than sales ledger kept at Swansea, all transactions are recorded in the books at Cardiff. The following particulars are given concerning the transactions at the branch during the year ended 28/2/2017.

	Shs
Stocks on hand 1/1/2016	4400
Debtors on 1/3/2016	3946
Stock on hand 28/2/2017 at invoice price	3948
Goods sent from Cardiff during the year at invoice price	24,800
Credit sales	21,000
Cash sales	2,400
Returns to head office at invoice price	1,000
Invoice value of goods stolen	600
Bad debts written off	148
Cash from debtors	22,400
Normal loss at invoice price due to wastage	100
Cash discount allowed to debtors	428

Required: write up the branch stock account and branch debtor's account for the year ended 28/2/2017 as they would appear in the books of the head office (8 marks)

d) With reference to container accounts, define the following terminologies (4 marks)

- Cost
- Depreciated value
- Charge-out price
- Credit back price

QUESTION TWO (20 MARKS)

TEQ Ltd developed a formula for making soft drinks. The company patented the formula and then leased it to TXK Bottlers Ltd at a royalty of sh.8.00 for every litre of drink produced and sold. The lease agreement provided for payment of royalties on 31/12 of the year of operations. Minimum rent was agreed at sh.600, 000 per annum and short workings were recoverable within the first four years of operation only. The lease agreement was effective from 1/1/2002. TXK bottlers Ltd sub-leased the patent to ZAQ soft drinks ltd on 1/1/2003 at a Royalty of sh.10.00 per litre of the drink produced and sold. Minimum rent was agreed at Sh.180, 000 per annum and short workings arise in any year were recoverable within the following two years only. The sub-lease agreement provided for the payment of Royalty arising in a year on 15th Jan of the following year. The information below was extracted from the books of TXK bottlers and ZAQ soft drinks ltd.

	TXK LTD	ZAQ LTD
	OUTPUT	OUTPUT
Year ended 31st Dec	litres	litres
2002	40,000	
2003	50,000	11,000
2004	70,000	16,000
2005	80,000	20,000
2006	95,000	28,000

Required:

The following accounts in the books of TXK Bottlers Ltd for each of the five years ended 2002,2003,2004,2005 and 2006.

a) Royalty payable Account (3 marks)

b) TEQ Ltd account (5 marks)

c) Short workings recoverable account (2 marks)

d) Royalty receivable account (3 marks)

e) ZAG Soft drinks Ltd account (4 marks)

QUESTION THREE (20 MARKS)

a) Explain the difference between a fixed price contract and a cost plus contract. (4 marks)

b) Jenga Ltd., is a construction company whose financial year ends on 31 March. The information provided below was extracted from the books of the company in connection with the three construction contracts undertaken by the company during the financial year ended 31 Mach 2005.

	Contract No.468 Sh '000'	**Contract No.469 Sh. '000'**	**Contract No.470 Sh. '000'**
Contract price	3,600	4,800	2,500
Cost incurred up to 31 March	1,800	3,000	1,500
2004			
Cost incurred during the year	600	1,000	500
Estimated total cost of the contract	3,000	5,200	2,300
Total billings to date	2,800	4,500	1,800
Total cash received to date	2,600	4,200	1,700
Total profit/(loss) reported on the contract to date	360	30	(20)
General administration expenses	60	120	30

Required:

Using the percentage of completion method of accounting for long-term construction contracts:

i. Prepare contract accounts for the three contracts 2005. (10 marks)

ii. Prepare balance sheet extracts as at 31 March 2005. (6 marks)

QUESTION FOUR (20 MARKS)

a) Briefly explain the meaning of the following terms in relation to bills of exchange:

i. Accommodation bill.

ii. Noting charges.

b) On 1 April 2005, Limo, Tergat, Wambani and Gachara entered into a joint venture for the purposes of importing second had cars from Dubai and selling them in Eldoret town.

The profit or loss from the venture was to be shared as follows: Limo 10%. Tergat 20%. Wambani 30% and Gachara 40%.

1. Limo was assigned the responsibility of going to Dubai to buy the cars. Tergat was to clear the cars at the port of Mombasa. Wambani was to transport the cars from

Mombasa to Eldoret and Gachara was to sell the cars once they were received in Eldoret.

The following is a summary of the transactions undertaken:

Gachara remitted Sh.4million to Limo and Wambani remitted Sh.500,000 to Tergat towards the joint venture.

2. Limo incurred the following expenses on behalf of the joint venture:

	Sh.
Travelling expenses	45,000
Entertainment	45,000
Purchase of cars	3,600,000
Shopping expenses	1,710,000

3. Tergat received the purchase and consignment documents from Limo and incurred the following expenses to clear the cars:

	Sh.
Customs duty	1,860,000
Clearing agents' fees	200,000

4. While transporting the cars from Mombasa, Wambani incurred the following expenses:

	Sh
General expenses	162,000
Haulage	135,000
Insurance	235,800

5. In order to sell the cars, Gachara incurred the following expenses:

	Sh
Security	126,000
Storage charges	81,000
Sales commissions	264,600

6. Gachara sold some cars for Sh.7, 900 and the remaining ones were taken over by Tergat for his own use at a value of Sh.1, 350,000

7. All the transactions were completed by 31 May 2005.

Required:

i. Memorandum joint venture profit and loss account for the two months ended 31 May 2005.

ii. The joint venture accounts in the books of Limo, Tergat, Wambani and Gachara for the two months ended 31 May 2005

QUESTION FIVE (20 MARKS)

a) The following balances were extracted from the books of Fedha Commercial Bank ltd on 30th June 2011.

	Sh "000"
Government securities	1,172,000
Loans and advances to customers	2,973,200
Cash and balance with central bank	628,500
Other money market placements	17,300
Property plant and equipment	504,000
Interest on loans and advances	435,400
Interest on government securities	238,200
Foreign exchange income	72,000
Fees and commissions income	170,200
Deposits with other banks	115,000
Other fixed assets	32,000
Interest on placement and bank balances	36,000
Non-operating income	17,000
Customers deposits	4,240,000
Deposits and balances due to other banks	215,000
Depreciation expense	42,000
Directors emoluments	12,500
Bad and doubtful debt expense	34,000
Interim dividends paid	25,000
Staff costs	295,000
Interest on customers deposits	115,000
Interest on borrowed funds	35,000
Ordinary share capital	250,000
Auditors remuneration	3,500
Contribution to staff provident fund	14,500
Loss on sale of fixed assets	21,800
General administration expenses	412,500
Reserves	529,000
Legal and professional fees	20,000

Additional information

1. Current tax has been estimated at sh. 120,000,000
2. Final dividends have been proposed at 10%
3. Accrued interest expense on customers deposits at 30/06/2011 was sh. 30,000,000
4. Unrecorded interest income on loans and advances to customers was sh. 150,000,000 at 30/06/2011.

Required

i. Income statement for the year ended 30/06/2011 (11 marks)

ii. Statement of financial position as at 30/06/2011 (5 marks)

b) Briefly explain any two salient characteristics of HIRE PURCHASE accounting (4 marks)