



# MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS, HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (ACCOUNTING OPTION)

BAC 402: SPECIALISED FINANCIAL ACCOUNTING TECHNIQUES

DATE: 22/8/2022

TIME: 11.00-1.00 PM

## INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO** questions

## QUESTION ONE (COMPULSORY) (30 MARKS)

- a) On 1<sup>st</sup> may, P. Wambua sells goods to A.Mwangi valued at sh.12, 000.A Mwangi accepts a bill of exchange for the amount payable in three Months. On 1<sup>st</sup> June, P.Wambua being in need of money, discounted the bill with his bankers at 10% p.a.discount.The bill is duly met at maturity. Show the relevant entries in the ledger of P.Wambua. (4 marks)
- b) A company bought sh 60,000 10% loan stock of expo ltd on 1<sup>st</sup> march 2018 at 90 cum intrest.Interest is payable half yearly on 30<sup>th</sup> June and 31<sup>st</sup> December. Show the entries in the books of AB limited for the year ended 31<sup>st</sup> December 2018. (5 marks)
- c) The following figures are used to illustrate the outline accounts. All purchases are made by the head office and goods are invoiced to branch at selling price, which is cost plus 33 1/3 per cent.  
At the beginning of the year, stock at the branch, at selling price amounted to £400 and debtors to £360.  
During the year the following transactions took place at the branch:-

	£
Cash sales	170
Credit sales	1,240
Goods received from head office, at selling price	1,200
Goods returned to head office, at selling price	80
Goods returned by customers	100
Cash received from debtors	1,210
Bad debts written off	20
Discounts allowed to debtors	80

At the end of the year the branch stock at selling price amounted to £200

From the information provided above, write up

- i. Branch markup account (3 marks)
  - ii. Goods sent to branch account (2 marks)
- d) Distinguish between a consignment and a sale. (4 marks)
- e) State and explain three methods that are used in writing off hire purchase interest (6 marks)
- f) Mwako and Mwako is a firm building contractors. The following information pertains to its uncompleted contracts as at 31 December 2003:

Contract	Mwako	Mwako
Date commenced	1 January 2003	1 February 2003
Expected completion	30 April 2004	31 March 2004

	Sh “000”	Sh “000”
Costs incurred up to 31 December 2003	127,200	45,600
Estimated further costs to completion	28,800	12,000
value of work certified as at 31 December 2003	160,000	40,00
Contract price	208,000	52,000
Progress payments received and receivable as at 31 December 2003	140,000	32,000

**Required:**

Show the profit or loss which should be recognized in the profit and loss account of mwako and mjengo for each of the two contracts, for the year ended 31<sup>st</sup> December 2003. (6 marks)

**QUESTION TWO (20 MARKS)**

- a) The Swastik Oil Mills, Mumbai consigned 5,000 kg of castor oil to Dass of Kolkata on 1st January, 2012. The cost of the oil was Rs 460 per kg. The Swastik Oil Mills paid Rs 2,00,000 for packing, freight and insurance. During transit 125 kg were accidentally destroyed for which the insurers paid, directly to the consignors, Rs 45,000 in full settlement of the claim.

Dass took delivery of the consignment on the 10th January. On 31st March, 2012 Dass reported that 3,750 kg were sold at Rs 600, the expenses being on go down rent Rs 30,000, on advertisement Rs 40,000 and on salesmen's salaries Rs 64,000. Dass is entitled to a commission of 3% plus 1½% Del credere. A party which had bought 500 kg was able to pay only 80% of the amount due from it.

Dass reported a loss of 50 kg, due to leakage. Assuming that Dass paid the amount due by bank draft, show the accounts in the books of both the parties. Books of accounts are closed by the parties on 31st March.

**Required**

- i. In the books of swatik, prepare the following accounts;
    - Consignment account
    - Goods sent on consignment account
    - Consignee account
    - Profit and loss account.
  - ii. In the books of Dass, prepare consignors account.
- b) Explain the following terms as used in accounting for construction contracts (IAS 11)
- i. Unit price contract.
  - ii. Time and material contract.

### QUESTION THREE (20 MARKS)

- a) The following balances were extracted from the books of a certain Commercial Bank on 30<sup>th</sup> 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	142,500
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 (10 marks)  
ii. Statement of financial position as at 30/06/2011 (6 marks)  
b) State four advantages of a bill of exchange (4 marks)

**QUESTION FOUR (20 MARKS)**

- a) Kamau has negotiated with Onyango for a licence to manufacture and sell weighing scales patented as “well scale”. Onyango is the registered owner of the patent. The agreement provides for a royalty to be paid to onyango of sh.250 for each unit sold in a year, subject to a minimum of Sh 2,500,000 per year. The shortfall in any year can be recouped from any excess of royalties over the minimum sum in the following year.

Kamau sold 8000 weighing scales in 2016 and 11000 in 2017. From the beginning of 2018, kamau issued a sublicense to kiplagat for the manufacture and sale of the same units, on the terms of a royalty of sh.300 each, a minimum sum of sh1, 500,000 per year and the right to recover any shortfall for a year from an excess in the following year.

The sales volumes for the following two years were:

	Kamau	Kiplangat
2018	12000	3000
2019	14000	4000

**Required:**

The accounts in Kamau's books for each of the four years 2016, 2017, 2018 and 2019 indicating the amounts to be transferred to the profit and loss account each year and the amounts carried forward the end of each year.

Assume that all amounts due were received or paid in the appropriate year. (16 marks)

- b) With respect to royalty accounts, explain the following terminologies. (4 marks)  
i. Minimum rent.  
ii. Short workings.  
iii. Royalty.  
iv. Recoupment of short workings.

### **QUESTION FIVE (20 MARKS)**

On 1 January 2013; Hassan and Kamau entered into a joint venture to buy and sell goods. It was agreed that Hassan should receive a commission of 2% on all sales in consideration for which he was to bear all losses from bad debts. Profits and losses were to be shared equally.

The following transactions took place:

2 January 2013: Hassan purchased goods for Sh. 680,000 paying Sh. 480,000 in cash and accepted two bills of exchange ,one for sh 80,000 and the other for sh.120,000.

3 January 2013: Hassan sent to Kamau goods which had cost Sh. 275,000 and Kamau transferred Sh. 350,000 to Hassan in cash.

9 January 2013: Hassan sold goods to Otieno for Sh. 42,000 and to Wafula for Sh. 25,000 and they accepted bills of exchange for the amounts respectively due from them. Hassan endorsed both bills to Kamau who discounted them incurring discounting of Sh. 2,000.

3 February 2013: Hassan sold goods for Sh. 180,000. On delivery, the customer rejected goods invoiced at Sh. 9,000 and these goods were collected by Kamau who sold them to another customer for Sh. 11,000.

11 Feb 2013: Otieno met his bill but Wafula's bill was dishonored. Wafula could not meet his debt and it was written off as a bad debt.

5 March 2013: Kamau paid the bill for Sh.80, 000 which had been accepted by Hassan and Hassan paid the second bill for Sh. 120,000.

20 March 2013: Hassan sold the remainder of the goods in his possession for Sh. 291,000 and Kamau's sales on the same date amounted to Sh. 340,000. Bad debts (apart from the amount due from Wafula) were Sh. 4,200 of which Sh. 3,000 was in respect of sales by Hassan.

On 30 April 2013, the venture was closed. Kamau took over the stock in his possession at a valuation of Sh. 50,000 and the sum required to settle accounts between the venturers was paid by the relevant venturer.

#### **Required:**

- a) Joint venture accounts which would appear in the books of Hassan and Kamau for the period ending 30<sup>th</sup> April 2013 (12 marks)
- b) Memorandum joint venture showing the distribution of profit for the period (4 marks)
- c) State four features of a contract. (4 marks)

