MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 210: ADVANCED FINANCIAL ACCOUNTING

DATE: 25/7/2019 **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

Answer question **ONE** and any other **Two** Questions.

QUESTION ONE

a) Write short notes on the following:

i. Hire Purchase interest suspense

ii. Provision for Unrealised profit on Hire Purchase Sales.

iii. Repossessions (6 marks)

b) Wesley Kelly deals in Motor Vehicles. He sells motor vehicles on hire purchase basis. He sold two motor vehicles to James Kamau on 1July 2016 for Shs.800,000 each. The Cash price for each of these cars was Shs.650,000. The payment was to be made as under:

Deposit @ Shs.200,000

24 monthly Installments of Shs. 50,000 each payable on the last day of every month. The Company recognizes profit on hire purchase sales in the year of sales but hire purchase interest is apportioned on time basis. The financial year of Wesley ellyends on 31 December each year.

Required:

Record these transactions in the Books of Wesley Kelly carrying don the balances as on 31 December

(a) Sales Account

(b) Hire Purchase Debtors account

(c) Hire Purchase interest Suspence account. (16 Marks)

c) Explain the meaning of the following terms:
   i) Del credere agent.
   ii) Sub – lease. (6 marks)

d) Express is a firm dealing in woven floor mats. The firm is located in Eldoret. Goods are sent on consignment to Mwenge in Nakuru. Mwenge is entitled to 6% commission on sales.

2. The following transactions took place during the month of July 2014:

2014

July 2: Express Ltd sent a consignment of 400 mats at a cost of Kshs. 258,000.
2: Express Ltd paid packaging ata cost of Kshs. 36,400.
2: Express Ltd paid insurance of Kshs. 6200 and rail transport of Kshs. 28,600.
4: Mwenge paid carriage inwards of Kshs. 3000 and cost of Kshs. 12,000.
5: Mwenge paid sales promotion costs of Kshs. 7000
20: Mwenge sold 350 mats at Ksh. 1200 each.
25: Mwenge sold 40 mats at Kshs. 1000 each.

The remaining mats were left in stock July 31. Mwenge sent account sales to Express Ltd.

Required:

Prepare:-
   i) Consignment account. (7 marks)
   ii) Consignees account (7 marks)
   iii) Mwenge's Sales account (6 marks)

3 On 31st January 2015, the premises of ABC Ltd were destroyed by a fire as a result of which stock was also burnt and the business of the company was disorganized until May 31st 2015. The company's insurance policy covers the following:

Stock	Shs.450,000
Buildings	Shs.600,000
Loss of profit (including standing charges)	Shs.200,000

Period of indemnity is six month

The summarized profit and loss account for the year ended 31st December 2014 was as follows:

		Shs.
Turnover		1,500,000
Less cost of sales:		
Opening stock	309,375	
Purchases	1,359,375	
	1,668,750	
Less: Closing stock	393,750	1,275,000
Gross profit		225,000

Less: standing charges (insured)	(125,625)
Variable Expenses	(60,000)
Net profits	39,375

The transactions for the month of January 2015 were as follow:

Turnover	Shs.75,000
Payments to creditors	Shs.80,000
Trade creditors:	
Balance on 1 January 2015	Shs.113,000
Balance on 31 January 2015	Shs.115,490
Stock salvaged	Shs.5,940

The reduction in turnover during the period of dislocation amounted to Shs.135,000 as compared with the turnover of the period corresponding to the previous period.

Building was worth Shs.750,000 on the date of fire and three quarter of its value was destroyed by fire.

Required:

Compute the insurance claims for:

(i) Loss of stock (9Marks)

(ii) Loss of buildings (6Marks)

(iii) Loss of profit (6Marks)

4. Kombole Ltd operates a branch at Mombasa and has a head office at Nakuru. All goods are purchased by the head office. The goods are charged to branches at cost plus 25%. The following information relates to Mombasa branch for the year ended 31st December, 2013

1st January, 2013 stock at selling price	110,000
1st January, 2013 debtors	98,650
31st December, 2013 at selling price	98,700
Goods to branch at selling price	620,000
Credit sales	525,000
Cash sales	60,000
Returns to H. Office at selling price	25,000
Stolen goods at selling price	15,000
Bad debts written off	3,700
Cash received from debtors	560,000
Normal loss at selling price	2,500
Cash discount allowed	10,700

Prepare the following accounts as they would appear in the head office books. Use memorandum method.

i) Branch Stock a/c (8 marks)
ii) Goods sent to branch a/c (2 marks)
iii) Branch debtors a/c (6 marks)
iv) Branch p/l a/c (4 marks)

5. a) (i) Explain the following terms as used in contract accounts:
- Architects certificate
- Retention Money
- Notional profit (6 Marks)

(ii) Highlight and explain six purposes of Branch Accounts. (6 Marks)

b) Healthy Enterprises have their head office in Eldoret and a branch at Naivasha. The following information relates to the year ended 31st December, 2018 regarding the transactions between head office and branch.

	Head Office		Branch	
	Dr	Cr	Dr	Cr
Goods sent to branch		180,000		
Goods received by branch			160,000	
Cash sent to H.O.			150,000	
Cash received from H.O.		135,000		
Branch current a/c	135,000			
H.O. current a/c				135,000
Branch profit for the year				60,000

Required:

Prepare the following accounts for the year:

i) Branch Current Account (4 marks)
ii) H.O. Current Account (4 marks)