MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE - ACCOUNTING OPTION

BAC 301: ADVANCED FINANCIAL ACCOUNTING I

DATE: 23/7/2019 **TIME: 11.00-1.00 PM**

INSTRUCTIONS: answer question one and any other two question

QUESTION ONE: COMPULSORY (30 MARKS)

(a) Differentiate between contingent liabilities and contingent assets. Give ONE example in each case (4 marks)

(b) Explain the following terms as used in the law of succession.

i. Codicil

ii. Executor

iii. Bequest

iv. Testator (6 marks)

(c) Maji limited had deferred tax liability of sh. 105 million as at 1 June 2016. During the year ended 31 May 2017, the company had the following items with regard to estimating deferred tax.

i) The carrying amount of property, plant and equipment as at 31 May 2017 was sh. 980 million. This included some buildings which were revalued upwards by sh. 50 million at 31 May 2016 which had a remaining useful life of 10 years at that date. The company's accounting policy is to treat revaluation surpluses as realized on disposal of the revalued assets. The tax base of property, plant and equipment as at 31 May 2017 was sh. 640 million.

ii) Deferred development expenditure amounted to sh. 45 million at year end (sh. 40 million as at 31 May 2016). Sh. 10 million of additional development expenditure was incurred during the year and the remaining difference between 2016 and 2017 figures relates to development expenditure amortized for products that have started being commercially produced. All development expenditure is allowed for tax purposes.

iii) Included in current assets is an amount of 40 million due in respect of some patent royalties on one of the company's older products which is now being produced by other companies. Patent royalties are taxed only when received.

Required:

The deferred tax balance as at 31 May 2017 and the relevant journal entry. (7 marks)

(d) Explain FOUR reasons that may lead to the dissolution of a partnership business. (8 marks)

(e) Explain FIVE objectives of public sector accounting (5 marks)

QUESTION TWO: (20 MARKS)

The approved estimates and actual expenditure details of the ministry of Agriculture for the year 2016/2017 were as follows;

CODE	DETAILS	APPROVED ESTIMATE	ACTUAL EXPENDITURE
		Sh.000	Sh.000
000	Personal emoluments	123280	97520
050	House Allowance	19550	14260
080	Passage and Leave	41040	667
100	Travelling and Accommodation	1334	1656
110	Transport and Maintenance	16100	13593
120	Postal and Telecom expenses	4600	3312
190	Miscellaneous charges	17480	16882
196	Training expenses	5980	4738
230	Purchase of equipment	21000	39800
620	AIA (Realized income)	1000	5560

Required: Prepare

a) General Account of Vote (4 marks)

b) Exchequer Account (4 marks)

c) Paymaster General Account (4 marks)

d) Appropriation in-aid Account (4 marks)

e) Statement of assets and liabilities as at 30 June 2017. (4 marks)

QUESTION THREE (20 MARKS)

a) Tajiri died on 12 March 2015, and by his will made in 2013 bequeathed the following gifts:

i. To Laura my daughter sh.100, 000

ii. To Eliud my son, my house in Kitisuru

iii. To Litha my wife sh.500, 000 on condition that she does not marry again.

iv. To Maskini my friend Sh. 250,000 from my fixed deposit account in Jaza bank

The executor established that:

- Tajiri gave Laura sh. 60,000 in 2014 to enable her establish a salon.
- The contract for the purchase of the house in Kitisuru was completed in June 2016.
- Litha is engaged to Kiatu and their wedding is scheduled for 31 December 2016.
- Maskini died on 11 March 2015 on hearing that his best friend Tajiri was seriously sick and had been admitted in the ICU.

Required: Explain how the executor should deal with each bequest. (8 marks)

b) Explain SIX circumstances under which a legacy may fail. (12 marks)

QUESTION FOUR (20 MARKS)

The trial balance extracted from the books of Newel, Omar, Pokka and Tamar on 30 April 2016 was as follows

	Sh. "000"	Sh. "000"
Freehold property (Net book value)	6,000	
Plant and Equipment (Net book value)	1,395	
Office equipment (Net book value)	2,030	
Vehicles (Net book value)	1,075	
Stocks	3,405	
Debtors	1,590	
Creditors		785
Bank overdraft		210
Capital Account: Newel		6,750
Omar		4,050
Pokka		2,700
Tamar		2,700
Current Account: Newel	250	
Omar	1,350	
Pokka	300	
Tamar		200
	17,395	17,395

The business has been steadily declining in the past few years. The partners have been trying to sell the business as a going concern but have been unable to do so. They decided to sell the assets on a piece-meal basis, and cash would be distributed to partners as soon as possible in amounts which would ensure that no partner would be called upon to repay any moneys he had received. In the partnership agreement, profits and losses were shared between Newel, Omar, Pokka and Tamar in the ratio of 4:3:2:1 respectively. The rule of Garner vs Murray was applied where necessary. The following transactions took place.

15 May 2016: All the motor vehicles were sold at the car bazaar for sh.975, 000 net of selling costs. The money was put into the bank account.

31 May 2016: Cash collected from debtors sh. 122,000 and stock sold to realize sh. 1,070,000 after costs. All creditors were paid and the first cash distribution was made.

30 June 2016: Cash collected from debtors sh. 248,000 and stock sold to realize sh. 955,000 net. Second cash distribution was made.

31 July 2016: Cash collected from debtors sh.1,100,000 and from sale of stock (net) sh. 1,465,000. Third cash distribution was made.

31 August 2016: Office equipment was sold for sh. 1,950,000 (net) and plant and equipment sold for sh. 1,610,000. Fourth cash distribution was made.

31 October 2016:The freehold property was sold for sh. 6,600,000. Various dissolution expenses were paid and the final distribution was made.

Required: Using the maximum potential loss method prepare;

a) A Partnership dissolution payment schedule'

b) Bank Account, Realization account and partners' capital account (in a columnar format) (20 marks)

QUESTION FIVE (20 MARKS)

A and B are in partnership selling necklaces at the Pujab market. They agreed to share profits and losses in the ratio of 3:2 respectively. The draft statement of financial position as at 30th June 2018 is as follows.

A and B Partnership Statement of financial position as at 30th June 2018.

Details	Sh. "000"	Sh. "000"
Non-Current Assets:		
Freehold Premises	3,000	
Fixtures and Fittings	100	
Motor Vehicles	300	3,400
Current Assets:		
Accounts Receivable	2,000	
Cash at bank	60	2,060
		5,460
Equity and Liabilities:		
Capital and Reserves		
Capital Accounts: A	2,000	
B	250	2,250
Current Accounts: A	300	
B	50	350
Non – Current Liabilities		
Loan from A		1,600
Current Liabilities:		
Accounts Payables		1,260
		5,460

Additional information:

1. AB limited was incorporated on 1 July 2018 for the purpose of taking over the business of the partnership. It is to acquire the freehold premises at sh. 4,000,000 and other assets with the exception of cash and motor vehicles at book values.

2. The current liabilities are also to be taken over by the new company. The purchase consideration is sh. 6,000,000 and it is to be settled by issue of 20,000 ordinary shares whose par value is sh. 100 each in AB limited and a cash payment of sh. 3,000,000 which AB limited plans to raise through a bank loan. A is to take over the car at a valuation of sh. 250,000. The partners have agreed to divide the shares received in the ratio in which they share profits and losses.
3. The loan from A is to be paid by the partnership

Required:

a) Relevant ledger accounts to close the partnership business. (Hint: 5 accounts) (10 marks)

b) In the books of AB limited, prepare;

i) Business purchase account (3 marks)

ii) Vendor account (2 marks)

iii) Opening statement of financial statement of AB limited. (5 marks)