MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING

DATE: 31/7/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

i) **Answer question one and any other two questions.**
ii) **Marks allocated for each question are shown at the end of the question.**
iii. **Show your working where necessary.**

1. a) Explain the following terms as used in accounting
   i. Contingent assets
   ii. Contingent liabilities
   iii. Provisions (6 marks)

b) Explain FOUR reasons for converting a partnership business to a limited liability company. (8 marks)

c) A firm bought some building at a total cost of Sh. 1,000,000 on 1 January 2016. 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 2016 the building was revalued to Sh. 1,000,000.

Required:
i) Compute the carrying amount, the tax base and the temporary difference of the building indicating the temporary difference arising due to revaluation.
ii) Assuming a corporation tax rate of 30%, give the relevant journal entry to record the revaluation and the deferred tax effects as at 31 December 2016. (8 marks)

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

e) Explain FOUR objectives of public sector accounting (4 marks)

2. The following is the balance sheet of Hannah, Ivy, James and Kelvin as at Dec 31, 2015. The partners had shared profits and losses in the ratio of 6: 4: 1: 1 respectively.

Hannah, Ivy, James & Kelvin Partnership
Balance Sheet as at 31 December 2015

		Sh. "000"
Total Assets		84,000
Capital & Liabilities:		
Capital Accounts: Hannah		6000
	Ivy	30,000
	James	20,000
	Kelvin	10,000
Accounts Payable		18,000
		84,000

The partners decided to dissolve the business on a gradual/piecemeal basis and the rule of Garner vs Murray was applied.

Additional information:

i) On March 1, 2016 some of the assets were sold for cash Sh. 50 million.
ii) Dissolution expenses amounted to Sh. 800,000.
iii) On 1 July 2016, some more assets were sold for Sh. 21 million
iv) On 1 October 2016, the final sale of the assets realized Sh. 12 million.

Required:

a) Briefly explain the rule of Garner vs Murray
b) Statement showing how cash realized would be distributed to the partners.
c) Realization account, Bank account and Capital accounts to close off the books of the partnership. (20 marks)

3. Robin (aged 54) died in a road accident on 31 December 2011. On May 2012 after his executors had paid all his debts, (except for the mortgage on his freehold house referred to below) testamentary and funeral expenses, his estate was ascertained as follows:

	Ksh"000"	Ksh. "000"
Cash on bank accounts		8,500
Freehold house		6,500
Jaquar motor car		720
Mercedes motor car		1,260
Stamp collection		850
Debt due from William		120
Furniture and other personal effects		1,345

10,000 Ordinary Ksh. 10 shares in EABL		1,200
4,500 Ordinary Ksh. 10 shares in NPL		740
Ksh. 800,000 5% Kenya stock		235
Income received to date:		
Bank interest	230	
Dividends from NPL	37	
Less: Mortgage interest paid in March 2012	(120)	147

Extracts from Robin's will left bequests as follows:

a) 'To my wife Annie, I leave my furniture and other personal effects and the residue of my estate after payment of my debts and expenses.'
b) 'To each of my sons, David, Jack and Stuart, Ksh. 1m.
c) 'To my unmarried daughter, Clare, my freehold house subject to any mortgage thereon.' The house was subject to a mortgage of Ksh. 2m, carrying interest at 12% per annum payable 31 March and 30 September.
d) 'To my friend Tony, whichever of the motor cars owned by me at the time of my death he may choose'
e) 'To my good friend Gerry Gangla, Ksh. 100,000.'
f) 'To my friend Ben, some of my furniture.'
g) 'To my cousin Susan, my painting of the "Street Scene" by Renoir.'
h) 'To my friend Dennis, Ksh. 200,000 on condition he gives up the bad habit of smoking.'
i) 'To my brother Joseph, 1,000 shares in Brooke Bond (K) Ltd.'
j) 'To my sister Elsie, Ksh. 600,000.'
k) 'To my secretary Betty, half of my holdings of Ordinary Ksh. 10 shares in EABL.'
l) 'To my cousin Mariam, my holding of Ksh.800, 000 5 ½% Kenya Stock and my holding of shares in Cassava Ltd.'
m) 'To my chauffeur, Malcolm, Ksh. 300,000.'
n) 'To my gardener Jeremiah, Ksh 150,000 if still in my employment at the time of my death.'
o) 'To my friend Eric, my 6,000 Ordinary shares in NPL.'
p) 'To my nephew Frank, 4,000 Ordinary Ksh. 10 shares from my holding of such shares in EABL.'
q) 'To my niece Tracey, Ksh.200, 000 payable out of my holding of Ksh.10 Ordinary shares in EABL.'
r) 'To my friend Timothy Ksh.150, 000.'
s) 'To my cousin Hazel, the Ksh.120, 000 which William owes me.'
t) 'To St. Peter's Church Ksh. 100,000 to provide a stained glass window in memory of my mother.'
u) 'To my good friend Gangla Ksh. 150,000 for looking after my house for years when I went on holiday.'

Robin's executors ascertained that the following beneficiaries were dead:

- Son Jack, died 2009, leaving a wife and two children.
- Son Stuart, died 2008, leaving a wife.
- Sister Elsie, died 2006, leaving a husband and two daughters.
- Chauffer Malcolm (aged 60) killed in the same accident as Robin. It was impossible to determine the order in which Robin and Malcolm died.

The executors also advise you that:

i. Tony elected to have the Mercedes car.
ii. Robin sold the Renoir painting in 2007 for Ksh.3m.
iii. Dennis replied in a letter to the executors that he had no intention of giving up smoking.
iv. Robin owned no shares in Brooke Bond Ltd. The value of 1,000 shares in that company is Ksh.330, 000.
v. There is no such investment as 5 ½% Kenya Stock. The reference in Robin's will to 5 ½% is thought to be a typing error not previously noticed.
vi. Robin sold his shares in Cassava Ltd. Using the proceeds of 900,000 to purchase his shareholding in KBL.
vii. The gardener, Jeremiah, retired in June 2010.
viii. In early 2010, Printer Ltd. merged with Nation Ltd. to form a new company Nation Printers Ltd. and Robin Received 4,500 new Ordinary shares in NPL in exchange for his 6,000 shares in Printers Ltd.
ix. Timothy replied in a letter that he 'didn't' want anything from Robin's estate because actually he hated the sight of him.'
x. In 2009 Robin had paid Ksh. 125,000 for a stained-glass window in St. Peter's Church in memory of his mother.
xi. His daughter Clare had married in April 2009.
xii. Gerry Gangla claimed both legacies.

NOTE:

i) EABL: East African Breweries Limited
ii) NPL: Nation Printers Limited

Required: A list of legacies to which the executors should not assent, briefly explaining the reason why the legacy is invalidated. (20 marks)

4. The approved estimates and actual expenditure details for Vote E45 of Ministry ABC for the financial year 2014/2015 were as follows:

	Approved Estimate	Actual Expenditure
	Sh. 000	Sh. 000
000 Personal emoluments	246,560	195,040
050 House allowances	39,100	28,520
080 Passages and leave expenses	8,280	1,334
100 Transport operating expenses	32,200	27,186
110 Travelling and accommodation	2,668	3,312
120 Postal and Telegram expenses	9,200	6,624
190 Miscellaneous expenses	34,960	33,764
196 Training expenses	11,960	13,476
230 Purchase of equipment	42,000	79,600
620 Appropriations- In Aid	10,000	11,120(realized)

The ministry made four equal withdrawals from the exchequer in July 2014, October 2014, January 2015 and May 2015. In total, the ministry had withdrawn sh.400, 000,000 by the end of the 2014/2015 financial year. Supplementary estimates authorized during the 2014/2015 financial year were as follows

	Sh.000
000 Personal emoluments	12,000(reduction)
196 Training expenses	2,000(increase)
620 Appropriation-In Aid	8,000(increase)

Required:

a) Appropriation account for the year ended 30 June 2015
b) General Account of Vote for the year ended 30 June 2015
c) Exchequer account for the year ended 30 June 2015
d) Paymaster General (PMG) account for the year ended 30 June 2015
e) Statement of assets and liabilities as at 30 June 2015 (20 marks)

5. The following is the Statement of financial position of Shika and Adabu who share profits and losses in the ratio of 2:3 respectively

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Sh.
ASSETS	
Non- Current Assets	
Motor Vehicles	960,000
Furniture	750,000
Investments	1,110,000
	2,820,000
Current Assets	
Stocks	3,420,000
Debtors	2,070,000
Bank	1,170,000
	9,480,000
CAPITAL & LIABILITIES	
Capital: Shika	4,500,000
Adabu	3,000,000
Current liabilities:	
Creditors	1,920,000
Electricity owing	60,000
	9,480,000

Additional information:

1. On 31 December 2015, Shika Adabu Limited was incorporated to take over the business of Shika and Adabu partnership on the following terms;
   - All assets except cash at bank
   - All liabilities except for electricity owing to be taken over by the company. Electricity owing was paid by the partnership.
2. Assets taken over by the company were revalued as follows

	Sh.
Motor Vehicles	900,000
Furniture	300,000
Stocks	2,700,000
Debtors	1,800,000
Investments	1,620,000

3. The purchase consideration was agreed at Sh. 6.9 million to be settled by issue of 240,000 ordinary shares of Sh. 20 each at a premium of 20% fully paid and the balance in cash.
4. The company also invited members of the public to subscribe for 150,000 ordinary shares of Sh. 20 each at a premium of 25%. The issue was fully subscribed and paid for in full
5. The shares issued to the partners were distributed among them according to their Profit and Loss sharing ratio.

Required:

a) In the books of the partnership prepare;
   i) Realization account,
   ii) Capital account,
   iii) Bank account
   iv) Shika Adabu Limited account.

b) In the books of AB limited, prepare;
   i) Business purchase account
   ii) Vendor account
   iii) Opening statement of financial statement of AB limited (20 marks)