MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 210: ADVANCED FINANCIAL ACCOUNTING

Date: 1/8/2016 **Time:**

INSTRUCTIONS

Answer Question One and any Other Two Questions

QUESTION ONE

a) A company purchase an asset on hire purchase on the following terms:

Cash price of the asset	Shs. 40,000
Hire purchase price	Shs. 46,000
Repayments: Deposit	Shs. 10,000

24 monthly installments of Shs.1,500 each.

Using sum of the digits method, show the following accounts.

i) Asset account
ii) H.P Company account
iii) Interest Suspense account.
iv) Bank account and profit and loss account. (14 marks)

b) The balances were extracted from the head office relating to one of its branches.

	Shs.'000'
Goods from head office	5,360
Returns to head office	47
Rates taxes and insurance paid	75
Wages paid	365

Cash remitted to head office	6,650
Stock on 1st January	750
Rent paid	130
Stock on 31st December	790
Sundry expenses paid	80

From the details given, prepare the following branch accounts as they would appear in the head office books.

i) Branch stock account. (6 marks)

ii) Branch profit and loss account (5 marks)

c) What do you understand by the following terms?

i) Stock insurance claim

ii) Notional profit

iii) Retention Money

iv) Work- in – Progress (5 marks)

QUESTION TWO

a) Explain four purposes of branch accounts? (4 marks)

b) Under what circumstances does a company prepare a branch mark-up account? (4 marks)

c) Vision Enterprises have their head office in Mombasa and a branch at Konza. The following information relates to the year ended 31st December, 2013 regarding the transactions between head office and branch.

	H.O.		Branch	
	Dr	Cr	Dr	Cr
Goods sent to branch		150,000		
Goods received by branch			140,000	
Cash sent to H.O.			130,000	
Cash received from branch		125,000		
Branch current a/c	25,000			
H.O. Current a/c				25,000
Branch profit for the year				40,000

Required:

Prepare the following accounts for the year:-

i) Branch Current account (7 marks)

ii) H.O. Current account (5 marks)

QUESTION THREE

a) Write short notes on the following:

i) Hire purchase interest suspense account.

ii) Provision for unrealized profit.

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 1st July 2012 for Shs.800,000. The Cash Price of these vehicles was Shs. 650,000. The payment was to be made as under:

Deposit Shs.200,000

24 monthly installments of Shs.25,000 each payable on the last day of every month.

The company recognizes profit on hire purchase sales in the year of sales but on 31st December each year.

Required:

Record these transactions in the books of Wesley Kelly carrying down the balances as on 31st December 2012.

i) Sales account

ii) Hire purchase debtors account

iii) Hire purchase interest suspense account (14 marks)

QUESTION FOUR.

Mkopo Construction company Ltd. won the contract for the construction of a Multi-storey building at a cost of Shs.200 million. The data relating to contract for the year ended 31st December 2008 were as under.

Shs. '000'	
Materials issued to site	80,000
Materials purchased locally	15,700
Direct wages:	
Paid	5,800
Accrued	350
Plant purchased and installed	48,800
Direct expenditure:	
Paid	1,780
Accrued	70
Establishment charges	180
Materials returned to store	580
Work certified	150,000
Cost of Work not certified	3,800
Materials on site on December 31st	5,330
Value of plant on December 31st	41,500

The Company has received from the client payment amounting to Shs.126 million.

Required:

a) Prepare the contract account (12 marks)

b) Compute the Value of Work– In – Progress (W I P) (4 marks)

c) Prepare the balance sheet extract relating to the contract (4 marks)

QUESTION FIVE

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 profitand 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	393,7501,275,000	
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:

a) Loss of stock (8 marks)

b) Loss of buildings (6 marks)

c) Loss of profit (6 marks)