MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 210: ADVANCED ACCOUNTING II

DATE: 5/12/2017 **TIME: 11:00 – 1:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

1. a) Distinguish between a balance sheet and a statement of affairs in Bankruptcy accounts (5 marks)

b) The following is the balance sheet of C Ltd as on 31/03/2014 on which all its assets and liabilities were taken over by D Ltd.

EQUITY AND LIABILITY	sh
Share Capital	
100,000 equity shares of sh.10 each fully paid up	1,000,000
General reserve	250,000
10% Debentures (of sh. 100 each)	300,000
Bills payable	700,000
Other sundry liabilities	500,000
	2,750,000
ASSETS	
Plant and Machinery	500,000
Furniture	250,000
Inventories	1,000,000
Bills receivable	750,000
Cash and Bank	150,000
Discount on issue of debentures	100,000
	2,750,000

Assets and Liabilities weretaken over at the following values. shs

Plant and Machinery	365,000
Furniture	200,000
Inventories	1,200,000

Bills receivable at 90% of the book value

Bills payable at 5% discount

D ltd issued 75,000 equity shares of sh 10each at sh 12 per share to the shareholders of C ltd and balance amount of purchase consideration paid in cash using the Net Assets method, determine thepurchase consideration (6 marks)

c) In accounting for pensions, distinguish the following terms;

- -defined contribution plans and defined benefit plans (2 marks)
- -Pension funding and pension accounting (2 marks)

d) In receiverships, the primary function of the receiver is to pay out the proceedings of realization ofthe assets the amount of the debt secured thereon, outline the six major functions of a receiver. (6 marks)

e) ABC ltd went into voluntaryliquidation ason 31/03/2016 and the following balance sheet was prepared.

<u>Balance Sheet of A LTD as at 31/03/2017</u>

Assets	**sh**	**Share capital**	
Goodwill	400,000	195,000ordinaryshares of sh.10 each	
Patents	100,000	fully paid	1,950,000
Freehold buildings	480,000	<u>Sundry creditors</u>	
Plant	655,000	Preferential	242,000
Stock	568,000	Partly secured against	
Debtors	648,200	freehold building	553,000
Profit and loss account	986,800	Unsecured	997,900
		Bank overdraft (unsecured)	120,000
	<u>3,863,000</u>		<u>3,863,000</u>

The liquidator realized the Assets as follows;

Freehold buildings sh.350,000;sundry debtors sh.585,000

Plant sh.510,000; Bills receivable sh 25,000

Stock sh 390,000

The expenses of liquidation amounted to shs 10,000 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to the unsecured creditors.

Required

a) Liquidations final statements of account. (4 marks)
b) Calculations of the liquidation remuneration (5 marks)

2. The balance sheet of A ltd, and B ltd, as on 31/03/2014 as on 31/03/2014 was as follows.

Balance sheet of A ltd, AS ON 31/03/2014

Assets		**Shs**	**Liabilities**	**Shs**
Good will		90,000	Share capital	
Land and buildings		130,000	2700 equity shares of	
Plant and machinery		50,000	sh 100 each	270,000
Stock		80,000	Dividend equalization	
Debtors	42,000		Reserve	10,000
Less provision	2,000	40,000	General reserve	12,000
Cash in hand		10,000	Profit and loss	18,000
Cash at bank		40,000	Creditors	80,000
			Bills payable	5,000
			Provision for taxation	45,000
		440,000		**440,000**

Balance sheet of B ltd as on 31/03/2014

Assets		**Shs**	**Liabilities**	**Shs**
Land and buildings		80,000	Share capital	
Furniture		15,000	2000 equity shares	
Plant and machinery		80,000	of sh 100 each	200,000
Vehicles		45,000	creditors	70,000
Stock		50,000	bills payable	20,000
Debtors	14,000			
Less: provision for bad debs		10,000		
(4,000)		5,000		
Cash in hand		5,000		
Profit and loss				
		290,000		**290,000**

A ltd and B ltd decided to amalgamate on that date and a new company AB ltd, was formed to carry on their business on the following terms:

a) AB Ltd took all assets of A ltd except debtors, cash and Bank balance at 10% depreciation and agreed to pay sh. 100,000 for good will. It also took over creditors and Bills payable.
b) Tax liability for 2013-2014 was paid for at sh. 38,000.
c) AB ltd took all assets of B ltd, except debtors and cash land and Buildings and stock were taken at 20% appreciation and other assets were taken at book value. They also agreed to take over the creditors of B ltd.
d) B ltd paid bills payable in full.
e) Purchase consideration was satisfied as follows sh. 20,000 to A ltd and sh. 15,000 to B ltd. The balance of purchase consideration was paid in equity shares of sh 100 each.
f) Debtors of A ltd, and B ltd realized sh. 38,000 and sh. 12,000 respectively.

Required:

i) Statement of purchase consideration (6 marks)
ii) Realization account
   - In the books of A ltd (4 marks)
   - In the books of B ltd (4 marks)
iii) Acquisition entries in the books of AB Ltd (6 marks)

3. a) The following balances were extracted from the books of South Africa marine insurance co ltd on 31/12/2007

	Shs
Premium less re-insurance	9,861,000
Commission on direct business	440,000
Commission on re-insurance ceded	52,000
Commission on re-insurance accepted	38,000
Depreciation	64,000
Loss on sale of investment	100,000
Claims paid less-reinsurance	5,040,000
Claims re-covered under re-insurance not adjusted	200,000
Directors remuneration	300,000

Interest and dividends (Net) not relating to any fund	275,000
Reserves for unexpired risks on 1/1/2007	7,800,000
Additional reserve on 1/1/2007	780,000
Claims outstanding on 1/1/2007	378,000
Claims outstanding on 31/2/2007	458,000
Tax deducted on interest and dividends	80,000
Salaries	640,000
Rent and rates	58,000
Postage and stationery	86,000
Surveyors fees and legal charges for settlement of claims	200,000
Profit and loss appropriation A/C on 1/1/2007	1,950,000
Provision for taxation to be made for 2007	608,300
Investment reserve to be increased by	150,000

Reserves for unexpired risks to be maintained at 100% of the net premium income. Additional reserve of 10% on the said premium is also maintained

Required:

a) Prepare the revenue account for the year ended 31/12/2007 (14 marks)

b) Explain the following terms as used in insurance:-

   i) Surrender value (2 marks)

   ii) Assignment (2 marks)

   iii) Re-insurance (2 marks)

4.

a) State the objectives of bankruptcy proceedings (3 marks)

b) Mutua commenced business on 1/1/2012 with capital of sh 800,000.His profits for three years were sh 380,000 he did not prepare proper accounts for the next two years .His drawings average sh.80,000 per annum. On 31st Dec 2016, an order of adjudication was made against him when his affairs were as follows.

Buildings cost sh 1,100,000, estimated to realize		shs 800,000
Plant and machinery cost sh 500,000 estimated to realize		150,000
Book debts good sh 80,000 doubtful		60,000
Bills receivable discounted andexpected to rank		100,000
Preferred creditors		60,000
Creditors parthy secured (security; life policy estimated to be worth 160000)		460,000
Mortgage on buildings		560,000
Unsecured creditors	800,000	
Household furniture		40,000
House hold debts		20,000
Furniture costs sh 200,000 estimated to realize		120,000
Stock costs at 320,000 estimated to realize		270,000
Cash in hand		30,000

Required

a.) A statement of affairs account (11 marks)
b.) A deficiency account (6 marks)

5

a) A compulsory winding up order was made on 31/08/2014 against Swazuri limited and a summary of the company balance sheet as at date was as follows;

Assets	Sh		sh
Freehold property	494,000	Issued share capital	
Plant and machinery	1,462,000	50,000shares of sh 20	
Stock	1,918,000	each fully paid	1,000000
Debtors	904,000	40,000 shares of sh 20	
Cash	2,000	each sh 12.50 paid	500,000
Goodwill	268,000		1,500,000
Profit and Loss Account	1,290,000	10% debentures (secured	
		By a first charge on freehold	
		Property) Bank overdraft	
		(Secured by floating charges	
		On assets)	2,279,000
		Customs and excise tax	
20,000			
		Trade creditors	2,090,000
		Accrued charges	39,900
		Interest on debentures	
		3 months to date	10,000
	6,338,900		6,338,900

The accrued charges consisted of;	sh
Directors fees 6 months to 31/08/2014	7,500
Managers salary 2 months to 31/08/2014	8,000
Wages of 3 workmen, 4 weeks to 31/08/2014	1,800
Rates half year to 31/08/2014	2,000
Corporation tax 2012	12,000
Miscellaneous items	8,600
	39,900

The holder of 2000 of the partly paid shares was bankrupt and it was anticipated that his trustees would be in a position topay adividend of sh. 5 in the sh 20 to his unsecured creditors.

The company's assets were estimated tobe realizable as follows;

	Sh
Freehold property	448,000
Plant and machinery	1,400,000
Stocks	1,876,000

-The debtors were considered good except as to sh 52,000 of which sh 40,000 debt were doubtful and were expected to realize sh 11,000 the remaining sh 12,000 debts being considered bad.Good will was regarded as value less

-Legal proceedings for breach of contract were pending against the company on 31/08/2014.The company was considered to have a poor defense and attempts were being made to beestimated at sh 8,00 No provision for this claim is included in the above balance sheet.

-The company incurred losses of sh 304,000, sh 384,000 and sh 602,000 respectively in the three years ended 31/08/2014

-The aggregate of the sums charged to profit and loss account during the three years in respect of depreciation, debenture interest and directors remuneration were sh 238,000, sh 60,000, sh 180,000 respectively

Required

a. Statement of affairs of Swazuri Limited as at 31/08/2014 (16 marks)
b. Deficiency account (4 marks)