



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

BACHELOR OF COMMERCE

BAC 402: SPECIALIZED FINANCIAL INSTITUTIONS

DATE: 25/7/2019

TIME: 2.00-4.00 PM

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (30 MARKS)

- a) PQ Ltd sold sh.60, 000,10% loan stock of Exp Ltd to AB ltd on 1/6/2008 at 90 ex int. This stock was purchased by PQ ltd on 31/12/2007 at a cost of sh.52, 000.Interest is payable half yearly on 30/6 and 31/12.

Required: show the entries in the ledger of PQ Ltd as it would appear on 31/12/2008 (5 marks)

- b) On 1/4/2007, A grant sells goods for sh.600 to klee,a bill with a maturity date of 30/6/2007 on 30/6/2007 being drawn by grant and accepted by Lee on 2/4/2007 on 30/6/2007 the bill is presented to Lee, but he fails to pay it and it is therefore a dishonored. The bill is noted, the cost of sh.2 being paid by grant drawers books under the following situations:-

- i. Where the bill has not be discounted
 - ii. Assume that the bill had been discounted on 5/4/2007 discounting charges being Sh.9
- (4 marks)

- c) In preparing a claim for submission to the insurance Company where a trading account is to be used, some information must be given .Support this statement (5 marks)

- d) With reference to segmental reporting, explain the following terminologies

- i. Business segment and a Geographical segment (2 marks)
- ii. Primary and Secondary segments (2 marks)

- e) Octopus Ltd whose Head office is at Cardiff operates a branch at Swansea. All goods are purchased by Head Office and Invoiced and sold by the branch at cost of plus $33\frac{1}{3}$ of other than the sales ledger kept at Swansea, all transactions are recorded in the books at Cardiff .The following particulars are given of the transactions at the branch during the year ended 28/6/2007.

	Shs
Stock on hand 1/3/2006 at invoice	4,400
Debtors on 1/3/2006	3,946
Stock on hand 28/02/2007 at invoice price	3,948
Goods sent from Cardiff during the year at invoice price	24,800
Credit sales	21,000
Cash sales	2,400
Returns to Head Office at Invoice price	1,000
Invoice value of the goods stolen	600
Bad debts W/O	148
Cash from debtors	22,400
Normal loss at invoice price due to wastage	100
Cash discount allowed to debtors	428

Required: (i) Branch stock A/C (5 marks)

(ii) Branch Debtors A/C (3 marks)

QUESTION TWO (20 MARKS)

- a) Prepare columnar contract accounts for Bayes Construction Limited who at present have two contracts in progress. The following details were extracted as at 31st Dec .

Contract No	Y2 82	2650
Commencement date	1 st January	1 st July
Prepare column contract	Shs	Shs
	“000”	“000”
Expenditure		
Materials	12,680	19,280
Wages	48,643	37,218
Site expenses	6,500	8,620
Plant purchases	150,000	65,000
Materials on site 31/12	2,100	6,400
Accrued wages	4,217	2,242
Value of work certified	110,000	85,000
Cash received on work certified	93,500	63,750
Work completed but not certified	3,500	2,200

Head office charges of Sh.22, 500,000 are charged contracts in proportion to their prime costs. The plant was installed at the commencement of the contracts and depreciation is calculated at 20% per annum. Both contracts have been estimated to give an overall profit on completion.

(17 marks)

- b) Site and contract work pose particular difficulties for cost control and accurate cost accounting. Describe three problems which might arise and how they can be overcome or mitigated
- (3 marks)

QUESTION THREE (20 MARKS)

Wild wood and Bine enter into a Joint Venture for dealing in antique brass figures. The following transactions took place.

2008

March: Wild rented a shop paying 3 months rent @ 150

1. Wood bought a motor van for sh 2,700
2. Wood bought antiques for sh.650
3. Bine received cash from sales process of antiques
4. Wild bought antiques for sh.1,200

April

- a) Motor van broke down bine agreed to use his own van for the job, until cessation of the joint venture at an agreed charge of sh.400
- b) Motor van bought on 2nd march was sold for sh 2,100 and the proceeds were kept by wild
- 15: Sale of antiques, cash being kept by wood sh.780
- 18: Lightning bills paid
- 30: Bine bought antique for sh .440

May 4: General expenses for the shop paid for sh 800 bine and wild paying half each

- 19: Antiques sold by bins sh.990 proceeds kept by him
- 31: Joint venture ended the antiques still in stock were taken over at an agreed valuation of sh.2, 100 by wood.

Required: show the joint venture accounts in the books of each of the three parties. Show in full the workings needed to arrive at the profit on the venture. The profit or loss was split wood $\frac{1}{2}$, wild $\frac{1}{3}$, Bine $\frac{1}{6}$. Any understanding balances were settled

(15 marks)

- c) State five essentials of a bill
- (5 marks)

QUESTION FOUR (20 MARKS)

A landlord granted to the mining Co.ltd a lease of mineral rights over his property for a period of 10 years from 1/1/2002. The rent payable was a minimum of sh.80, 000 a year merging into a royalty of sh.1 recouped out of excess working over the period of the lease. At the end of the first year, the mining ltd granted a sub-lease to mining lesses ltd in respect of one –half of the area for a period of nine years. Mining lesses were to pay a minimum rent of sh.44, 000 merging in a royalty of sh 150 per ton payable annually. Short working could be recouped out of subsequent access workings in any of the three years following that in which short working occurred. The following tonnages were mined from property.

	Mining Co.	Mining leases
1 st year	40,000 tons	-
2 nd year	75,000 “	15,000 tons
3 rd year	60,000 “	18,000 ”
4 th year	65,000 “	20,000 ”
5 th year	70,000 “	35,000 ”
6 th year	49,000 “	35,000 ”
7 th year	46,000 “	40,000 ”

Required:

Prepare ledger accounts in the books of Mining Co. Ltd highlighting

- a) Royalty payable and receiving account
- b) Land lords Account
- c) Short working account
- d) Leases account
- e) Sub tenant’s account

QUESTION FIVE (20 MARKS)

RST Ltd sold one motor vehicle to David on 1st July 2007 under the Hire Purchase System on the following terms

	Shs
Hire Purchase Price	400,000
Cash Price	352,000
Deposit or dawn payment	80,000

16 monthly installment sh.20, 000 each payable on the last day of every month. David failed to pay the installment due on 31/5/2008 and he confirmed to RST Ltd that he was unable to proceed with the contract. RST subsequently obtained a court order and repossessed the motor vehicle which was valued at sh.130, 000.

Required:

- a) Show the entries in the books of RST Ltd .On the assumption that the Company's financial year ends on 31st December each year highlight
 - i. Sales account (2 marks)
 - ii. Hire purchase interest suspense account (4 marks)
 - iii. Hire purchase debtors Account (4 marks)
 - iv. Repossessions Account (2 marks)
- b) Explain the following terminologies as used in investments Account. Give a relevant example where
 - i. I am dividend (interest) quotations (2 marks)
 - ii. Ex-Dividend (Or interest) quotations (2 marks)
 - iii. Bonus issue
 - iv. Rights issue