



# MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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## University Examinations 2011/2012

THIRD YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF  
BACHELOR OF COMMERCE

### HBC 2211: ADVANCED ACCOUNTING I

**DATE: APRIL 2012**

**TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer all questions*

#### QUESTION ONE (30 MARKS)

Tiomin ltd holds a lease of minerals from Kitui municipality ltd for a period of 40 years from 1 October 2011. under this lease, there is payable a royalty of sh.100 per tonne merging in a minimum rent of sh.20,000 per year payable  $\frac{1}{2}$  yearly on 30<sup>th</sup> September and 31<sup>st</sup> march. They granted a sub-lease for 20 years from 1 April 2012 to latex ltd for a royalty of sh. 150 per tonne merging in a minimum rent of sh15, 000 per half year, payable yearly on 31 March and 30<sup>th</sup> September.

Tiomin are entitled to recoup short workings from Kitui municipality Ltd throughout the lease term, but the sub-lease allows LATEX Ltd to recoup short workings only out of excess workings in any of the three half-years immediately following that in which short workings accrued:

The mining work was as follows:

	<u>By tiomin</u>	<u>By latex</u>
Half year ended:	(tones)	(tones)
31 March 2012	50	-
30 September	50	50
31 March 2013	200	60
30 September	300	60
31 March 22, 2012	250	120

**Required:** show the necessary accounts in the books of TIOMI Ltd. The books are balanced each year on 31<sup>st</sup> March. (15 Marks)

**QUESTION TWO (10 MARKS)**

Unique Corporation had the following transactions in 6% government stock between 1<sup>st</sup> September 2010 and 31<sup>st</sup> July 2012 and all these transactions are assumed cum-interest except those marked s ex-interest. Interest is payable ½ yearly on 1<sup>st</sup> February and 1<sup>st</sup> August. Unique Corporation closes its books on 30<sup>th</sup> June every year.

1-9-10	purchased ash, 10, 9000 stock at 101.50
1-10-10	purchased sh. 25, 0000 stock at 101
1-11-10	sold sh.15, 000 stock at 103.25
1-11—10	purchased sh. 5,000 stock at 103
15-1-11	sold sh. 10, 1000 stock at 105 ex-unit
1-3-11	sold sh. 4,000 stock at 102.5
15-7-11	purchased sh. 5,000 stock at 101.25 ex-unit
1-11-11	purchased sh. 5,000 stock at 102
15-1-12	sold sh. 1 5,000 stock at 103
1-7-12	purchased sh. 2,000 stock at 102

**Required:**

Write up the investment account n the books of the corporation for the two years ended 30<sup>th</sup> June 2011 and 30<sup>th</sup> June 2012 transferring the relevant amounts to the P and Land recording the remaining transactions. (10 Marks)

**QUESTION THREE (15 MARKS)**

LG Ltd forward on 1 January 2011, 100 bicycles to Alfred and Co. of Nairobi to be sold on behalf of LG Ltd the cost of 1 bicycle was sh. 2,500 but the invoice price was sh. 3,000 LG Ltd incurred sh. 10,000 on freight and insurance and received sh. 100,000 as advance from SONY and co.

SONY and Co paid sh. 5,000 for carriage inwards sh.4, 000 as rent and sh. 3,000 as insurance; and by 30<sup>th</sup> June 1998 had disposed of 80 bicycles for sh. 250,000. SONY and Co is entitled to a commission on sales at 5% of SONY and Co remitted the balance due from them by bank draft.

**Required:**

Write up the ledger accounts in the books of both parties (15 Marks)

#### QUESTION FOUR (15 MARKS)

- a. What is the basic principle involved in accounting for Hire Purchase Transactions? Describe how that principles in accommodated by two of the accounting methods commonly used to account for Hire Purchase Transactions.
- b. Juma Koko and Kimo were in partnership, sharing profits and losses, Juma 60%, Koko 30% and Limo 10%.  
The partnership deed provided the following.
- Interest at the rate of 10% per annum shall be allowed on fixed capital accounts balances. Interest will not be allowed on current accounts but 8% per annum is to be charged on any debit balance at the start of the year.
  - Good will is to be valued at the average annual profits for the three years immediately preceding the balance sheet date.

The following are particulars of partners' accounts:

	“fixed capital At 31 Dec 2005 Sh.	balances on current account at 31 Dec 2005 Sh.
Juma	180,000	50,000 cr
Koko	90,000	10,000 cr
Limo	30,000	12,000cr

The partners agreed to take Namu a son of Juma into partnership as on 1 January 2006 and on that day he introduced sh. 35, 000 in cash which included his “fixed” capital of sh. 30,000. He is to receive a salary of sh. 15,000 per annum in addition to his shared of the profit. Juma personally guaranteed that the aggregate of Namu’ salary and share of profit shall be not less than sh. 30,000 per annum.

Profit sharing ratios are to be Juma, 30%, Koko 30%, Limo 30% and Namu10%. Agreed profits for goodwill purpose for the past four years are as follows.

	Sh.
2005	163,370
2004	102,550
2003	107,580
2002	141,640

No account for goodwill is to be maintained n the books, adjusting entries for transactions between the partners being made n their current accounts. The draft accounts for the year ended 31 December 2006m before taking into account Namu’s salary or interest on partners’

accounts, show a profit of sh. 176, 45000. Partners' drawings during the yea are Juma sh. 63,000, Koko sh. 49,000, Limo sh.49, 000 and Namu (including salary) sh. 21,930.

**Required:**

- i. A statement showing the sharing of profit for the year ended 31 December 2006
- ii. The partner's current accounts for the year ended 31 December 2006, recording therein the entries necessary upon admission of Namu as a partner. (15 Marks)

**QUESTION FIVE (15 MARKS)**

During the year ended 31 December 2008, Nyumba investment Ltd purchased and sold investments as follows:

- i. 31<sup>st</sup> March purchased 10,000 5% debentures of sh. 100 each of asbestors Ltd at 97, brokerage and stamp duty amounting to sh. 25,600. Interest is payable on the debentures on 1<sup>st</sup> July and 1<sup>st</sup> January.
- ii. 1<sup>st</sup> March purchased 10,000 6% cumulative preference shares of sh. 100 each of bricks Ltd at 95, brokerage and stamp duty being sh. 24, 200. Dividends are payable on 30<sup>th</sup> June and 31<sup>st</sup> December.
- iii. 1<sup>st</sup> July sold sh. 600,000 debentures of asbestors Ltd at 99 less brokerage and stamp duty, which came to sh. 3,600.
- iv. 1<sup>st</sup> October purchased a further 4,000 6% cumulative preference shares of sh. 100 each of bricks Ltd at 90, brokerage and stamp duty being sh. 8,600.

**Required:**

Write the ledger accounts of the two investments for the year 2008. (15 Marks)