



(Knowledge for Development)

KIBABII UNIVERSITY

**UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER**

**MAIN/SPECIAL/SUPPLIMENTARY EXAMINATION
FOR THE DEGREE OF BACHELORS
OF COMMERCE**

COURSE CODE: BCA 319

COURSE TITLE: ADVANCED ACCOUNTING

DATE: 03/09/2019

TIME: 8.00 AM

INSTRUCTIONS TO CANDIDATES

Answer Question **One** from section **A** and Any other **Two Questions** from section **B**

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating
This Paper Consists of 4 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE (30 MARKS) ✓

- a) How would the following expenses be distributed among the various departments : (6 marks)
- (i) Managing director's salary and commission
 - (ii) Advertisement charges
 - (iii) Interest on borrowed capital
- b) Fairways Limited is a retail organisation with several departments. Goods supplied to each department are debited to a memorandum departmental stock account at cost, plus a fixed percentage (mark-up) to give the normal selling price. (The mark up is credited to a memorandum departmental 'Mark-up account'; any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 40%.

Figures relevant to Department A for the year ended 30th June, 2019 were as follows :

- Stock 1st July, 2018, at cost 80,000
- Purchases, at cost 180,000
- Sales 320,000

It is further ascertained that:

1. Goods purchased in the period were marked down by Sh. 1,400 from a cost of Sh. 16,000.
2. Marked-down stock costing Sh. 4,000 remained unsold on 30th June, 2019.
3. Stock shortages at the year end, which had cost Sh. 1,200, were to be written off.
4. Stock at 1st July, 2018 including goods costing Sh. 8,200 had been sold during the year and had been marked down in the selling price by Sh. 740. The remaining stock had been sold during the year.
5. The departmental closing stock is to be valued at cost subject to adjustments for mark-up and mark-down.

You are required to prepare

- (i) A Departmental Trading Account for A Department for the year ended June, 2019 in Head Office books; (7 marks)
- (ii) A Memorandum Stock Account for the year; (12 marks)
- (iii) A Memorandum Mark-up Account for the year. (5 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS) ✓

QUESTION TWO(20 MARKS)

- a) Explain any two methods of charging goods to branches by head office (4 marks)
- b) ABC has a branch in Bungoma to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit, Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account. Relating to calendar year 2018, Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Sh.
Goods received from Head Office at invoice price	600,000
Returns to Head Office at invoice price	12,000
Stock at Bungoma as on 1st Jan., 2018	60,000
Sales in the year - Cash	200,000
Credit	360,000
Sundry Debtors at Bungoma as on 1st Jan. 2018	72,000
Cash received from Debtors	320,000
Discount allowed to Debtors	6,000
Bad Debts in the year	4,000
Sales returns at Bungoma Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2018 at invoice price	120,000

Prepare the following accounts in the Head Office Ledger (4 marks each)

- i. Branch stock account
- ii. Branch stock adjustment account
- iii. Goods sent to branch account
- iv. Branch income statement for the year 2018

QUESTION THREE (20 MARKS) ✕

“Inflation accounting is an element but a useless creature with a prodigious appetite for extra data. It is the sterile offspring of a scandalous marriage between high financial economics and mismanaged economics”.

Required:

- a) In light of the above statement, summarise some of the arguments that can be advanced to defend Historical cost accounting. (8 marks)
- b) What flaws exist under Historical cost accounting that can encourage setting of an accounting standard for firms operating under inflationary conditions (8 marks)
- c) Provide the criteria that should be used in the selection of appropriate accounting measurements in business reports. (4 marks)

QUESTION FOUR (20 MARKS) ✓

- a) Give the essential features of each of the following instruments, promissory note and bill of exchange (8 marks)
- b) Differentiate the following (4 marks)
 - i. Time bill and demand bill
 - ii. Trade bill and accommodation bill
- c) The information below relate to Hassan a trader for the month of may

May 4. He drew 3 bills on B of sh. 500 sh, 400 sh, 300 payable on the second, third, and fourth month respectively.

May 12 He endorsed the first bill in favor of his customer C at sh. 475

May 19 He discounted the second the second bill with his banker for sh. 380

May 26 He was paid the proceeds of the 3rd bill at rebate of 5% on the total amount of the bill

On due dates the first and second bills were dishonored but the 3rd one was paid.
 Required

Journal entries to show the above transaction (8 marks)

Branch Stock Ac			
bal b/d	60000	Sales	Credit 36000
Gross Income	600000	Cash	200000
Sales Retn	8000	Closing Stock	120000
Branch start fig	240000	Return to HO	120000

Branch Stock Adj	
Adjustment of Closing Stock = 24000	Adj on bal b/d = $\frac{25}{100} \times \frac{100}{125} \times 60000 = 12000$
Adj on return to HO = 24000	Adj on goods from HO = $\frac{25}{100} \times \frac{100}{125} \times 600000 = 24000$
	Adj on shortage = $\frac{25}{100} \times \frac{100}{125} \times 34000 = 12000$
GP = 1073000	
<u>1073000</u>	
1337000	1337000

Branch Income Stmt			
GP	1073000	Cash from debt	6000
Gundry debt	72000	Bad debt	4000
Off exp	6000	Rets Retn	18000
		Surplus	60000