

CHUKA



UNIVERSITY

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EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE**BCOM 311: ADVANCED FINANCIAL ACCOUNTING I****STREAMS: BCOM Y3S1****TIME: 2 HOURS****DAY/DATE: THURSDAY 06/12/2018****11.30 A.M – 1.30 P.M****INSTRUCTIONS****Answer question one and any other two questions**

1. (a) State and explain the circumstances under which a partnership agreement may be changed. [8 marks]
- (b) Explain the rule in Garner V. Murray (1903). [2 marks]
- (c) Q,R and S are in partnership sharing profits and losses in the Ratio of 3:2:1. The following is their statement of financial position as at December 2017.

Financial of financial position**As at 31st December 2017**

Capital account	ksh		Fixed assets	ksh	ksh
Q	240,000		Premises	300,000	
R	160,000		Motor vehicles	76,000	-----
S	<u>80,000</u>	480,000	Furniture & fittings	<u>24,000</u>	400,000
Current accounts			Current assets		
Q	40,000		Stock	110,000	
R	36,000		Debtors	74,000	
S	(56,000)	20,000	Bank	<u>28,000</u>	212,000
Creditors		112,000			
		<u>612,000</u>			<u>612,000</u>

The partners decided to dissolve the partnership as at January 2018. The premises and stocks were sold for ksh 260,000. The debtors realized ksh 60,000. Motor vehicles and

furniture and fittings were sold for ksh 50,000 and ksh 20,000 respectively. S is declared insolvent.

Required:

Show how the above transactions will appear in:

- | | |
|-------------------------------|-----------|
| (a) Realisation account | [6 marks] |
| (b) Bank account | [6 marks] |
| (c) Partners capital accounts | [8 marks] |

2. (a) Explain the following terms as used in royalty accounting:

- | | |
|---------------------|-----------|
| (i) Sub lease | [2 marks] |
| (ii) Short workings | [2 marks] |
| (iii) Dead rent | [2 marks] |

(b) Kiptoo, an investor who had patented a firm ware gave mali mingi ltd the right to produce and sell machines under license for seven years. The stipulated terms were as follows:

- royalty of ksh 600 to be paid on each machine sold.
- A minimum rent of ksh 300,000 per annum
- Should short workings arise in any year ,a right to recoup such short workings in any two years immediately following the year they were accrued.

The number of machines sold were as follows:

- 2010: 400 units
- 2011: 450 units
- 2012: 540 units
- 2013: 650 units

Required : prepare the following accounts in the books of mali mingi ltd .

- | | |
|--------------------------------|-----------|
| (a) Royalties payable account. | [3 marks] |
| (b) Short working account | [4 marks] |
| (c) Land lord account | [5 marks] |

3. Walubenge started business on 1st January 2013 with a capital of ksh 800,000. His profit for three years were ksh 380,000 but he did not prepare proper accounts for the next two years.

His drawings averaged ksh 80,000 per annum. On 31st December 2017, a notification order was made against him and his affairs were as follows:

Building cost ksh 1,100,000 estimated to realise ksh 800,000. Plant and machinery cost ksh 500,000 estimated to realize ksh 300,000.

Book debts: Good ksh 80,000, doubtful ksh 60,000 and estimated to realise ksh 20,000, bad debts ksh 10,000.

- Bills receivable discounted and expected to rank ksh 100,000
- Preferential creditors ksh 60,000
- Creditors partly secured (security life policy estimated to worth ksh 160,000) ksh 460,000
- Mortgage on building ksh 560,000
- Unsecured creditors ksh 800,000
- Household furniture ksh 40,000
- Household debts ksh 20,000
- Furniture costs ksh 200,000 estimated to realize ksh 120,000.
- Stock costs ksh 320,000 estimated to realize ksh 270,000
- Cash in hand ksh 30,000

Required :

Statement of affairs and deficiency account as at 31st December 2017.[20 marks]

4. (a) State the nature and purpose of the following in an insurance contract covering consequential loss.

(i) Special circumstance clause [2 marks]

(ii) Average provision clause. [2 marks]

(b) Ngata ltd burnt on 1st July 2016 and business was disrupted till 30th November 2016.

The following information were extracted from the company's books of account.

	Ksh
Actual turn over 1/7/2016 to 30/11/2016	900,000
Turnover from 1/7/2015 to 30/11/2015	3,000,000
Net profit for the financial year	1,350,000
Insured standing charges for the financial year	900,000
Turnover for the last financial year	7,500,000
Turnover for the year ending 30 th June 2017	8,250,000
Total standing charges for the year	1,080,000

The company incurred additional expenses amounting to ksh 135,000 which reduced the loss in turnover. There was also a saving during the indemnity period of ksh 50,000.

The company has a consequential loss policy for ksh 3,300,000 having an indemnity period of 6 months. An adjustment of 25% has been agreed in respect to turnover due to economic upturn.

Required :

Compute the insurance claim showing the amount of consequential loss claim.

[16

marks]
