



Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE : BCA 311/BCA302

COURSE TITLE : SPECIALIZED ACCOUNTING

DATE: 24TH SEPTEMBER, 2021

TIME: 11.00AM – 1.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

SECTION A

QUESTION ONE.

- (a) Distinguish between Operating Lease and Finance lease - (6 Marks).
- (b) AK Ltd hires out Machinery on long-term operating lease. On 1st January 2017, it entered into a 10 year lease on its Machinery. The terms of the lease are Kshs 3,600,000 payable on 1st January, 2017 followed by nine rentals of Shs 1,200,000 payable on 1st January 2017 to 2025. The Machinery will be returned to ABC Ltd on 31st December, 2025. The Machinery cost 5,440,000 and has a 25 year useful life with no salvage residual value.

Required.

- (i) Calculate the annual rental income that will be claimed by AK Ltd. (4 Marks).
- (ii) Prepare extracts from the Income Statement and the balance sheet of AK Ltd for 2017 and 2025. (10 Marks).
- (c) On 1st June, 2012 James purchased Kshs 900,000 6% debentures of Kshs 1,000 each in Britam Ltd. at Kshs 1,100 cum-interest with interest being payable on 31st March and 30th September each year. Expenses on stamps amounted to Kshs 800. On 1st November, 2012, he sold Kshs 300,000 debentures at Kshs 1,200 cum-interest. Brokerage payable on each transaction is 0.6% on nominal value.

Required.

Pass journal entries in the books of James and show Investment Account and Interest Account as at 31st December, 2012.

SECTION B.

QUESTION TWO – (20 MARKS).

XYZ Ltd holds a lease of coal from Crane Ltd. For a period of 30 years from 1st July, 2010. Under this lease there is payable a royalty of Kshs 1,600 a tonne merging in a minimum rent of Shs 12 Million a year, payable half yearly on 30th June and 31st December. They granted a sub-lease for 20 years from 1st January, 2011 to Wafula & Sons Ltd of one half of the area for a royalty of shs 1,900 a tonne merging in a minimum rent of Shs 16 million per half year, payable half yearly on 31st December and 30th June.

XYZ Ltd. are entitled under the lease from Crane Ltd to recoup short workings out of excess workings throughout the term of the lease but the sub lease allows Wafula and Sons Ltd. to recoup short workings only out of excess workings in any of the three half years immediately following that in which the short workings accrued.

Details of Coal extracted are worked as follows:

	XYZ Ltd. <u>Tonnes</u>	Wafula and Sons <u>Tonnes</u>
Half Year ended 31 st December, 11.	60,000	-
Half Year ended 30 th June, 12	60,000	60,000

Half Year ended 31 st December, 12	320,000	80,000
Half Year ended 30 th June, 13	400,000	80,000
Half Year ended 31 st December, 13	350,000	160,000

Required.

Prepare the necessary accounts in the books of XYZ Ltd. The Books are balanced each year on 31st December. **(20 Marks).**

QUESTION THREE – 20 MARKS.

The following balances were extracted from the books of First Kenya Bank Ltd as at 31 December 2010.

	Shs '000	Shs '000
Interest on loans		175,000
Interest on overdrafts		152,000
Discounts earned on bills discounted		88,000
Reserve fund		148,000
Share premium		102,500
Commission exchange & brokerage received		101,500
General charges recovered		1,340
Profit and Loss B/F		127,220
Ordinary share capital		298,000
Current account deposits		1,085,000
Savings A/C deposits		166,500
Fixed deposits		854,500
Deposits from other banks		346,200
Sundry Creditors		12,500
Acceptances & endorsements	650,000	574,000
Investment in government securities	836,000	
Investment in Shares	675,500	
Furniture & Fixtures (NBV)	56,500	
Loans	860,000	
Overdrafts	134,500	
Bills discounted (and purchased)	678,500	
Interest paid on deposits	28,000	
Exchange and commission paid	2,220	
Stationery & advertising	6,100	
Miscellaneous expenses	10,000	
Salaries & wages	42,600	
Land & Buildings	65,500	
Cash in hand and with CBK	16,340	
Balances with other banks	136,000	
Money at call and at short notice	34,500	
	4,232,260.	4,232,260

Notes:

1. Provision is to be made as follows:

- a) Provision for doubtful debts – Sh1,620,000
 - b) Provision for taxation (corporate) at 30% of net profit
 - c) Provision for depreciation on furniture and fixtures at 25% on written down value
2. Rebate on discounted bills amounted to Sh2,400,000 as at 31 Dec 2010
 3. The directors require the bank's investment in shares to be shown in the balance sheet at market value on 31 Dec 2010 – which was Sh282, 600,000.
 4. Liability on bills rediscounted is Sh 486,000
 5. Liability in respect of forward exchange contracts outstanding is Sh6,300,000
 6. Interest earned on investments, but not yet received is Sh14, 600,000.

Required:

- 1) Profit and Loss account for First Kenya bank for the year ended 31 Dec 2010; and
- 2) Balance sheet as at 31 December, 2010. **(20 Marks).**

QUESTION FOUR.

- (a) Briefly discuss at least two recommendations by IAS 41 for Farm Accounting. **(4 Marks).**

Following are details from the books of Ngata Farm for the year ending 31st December, 2012.

Particulars	Opening Stock Kshs	Closing Stock Kshs
Cattle	66,000	82,000
Poultry	16,000	19,800
Fish	19,000	25,000
Chemicals and Fertilizers	14,000	11,000
Cattle Feed	18,000	14,000
Poultry Feed	1900	1,700
Seeds	4,400	5,200
Crops	9,000	15,000
Growing Crops	7,400	9,800

Purchases during the year 2010 were as follows:

Particulars	Amount – Kshs
Cattle	25,000
Poultry	13,000
Fish Spam	4,500
Cattle Feed	12,300
Poultry Feed	6,200
Fertilizers	7,000

Sales during the year 2010 were as follows:

Particulars	Amount - Kshs
Cattle	19,000
Poultry	17,000
Fish	12,000
Fruits	7,000
Vegetables	9,000
Crops	36,000
Milk	31,000
Flowers	3,600
Butter	1300
Eggs	8,800

Other expenses for all divisions were as follows:

	<u>Kshs.</u>
Wages	18,000
Insurance	6,000
Repairs	5,600
Depreciation	5,000
Rent and Taxes	6,200

Certain items were consumed by workers and proprietor as given below:

Particulars	Workers Kshs	Proprietor Kshs
		900
Poultry	1,900	1,300
Fish	2,700	1000
Fruits	220	800
Vegetables	1,400	1,500
Milk	1,000	700
Eggs	500	800
Butter	-	

Required.

Prepare separate Farm Accounts for Dairy, Poultry and Fish Agricultural Crops Account and Profit and Loss Account. (16 Marks).

QUESTION FIVE.

- (a) Explain the following terms:
- (i) Commission on reinsurance ceded - (2 Marks).
 - (ii) Surrender Value - (2 Marks).
 - (iii) Bills Payable (Banking) - (2 Marks).
 - (iv) Endowment Policy - (2 Marks).
 - (v) Unearned premium.

- (b) Distinguish between Hire Purchase and Instalment System. (10 Marks).