



(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
SPECIAL/SUPPLEMENTARY EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA319/BCA322

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

DATE: 18TH FEBRUARY, 2021 **TIME: 8.00am- 10.00am**

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

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

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)