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(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER

SPECIAL/ SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELORS
OF COMMERCE

COURSE CODE: BCA 302/311

COURSE TITLE: SPECIALIZED ACCOUNTS

DATE: 2ND FEBRUARY, 2021

TIME: 11.00AM - 1.00PM

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. 

QUESTION ONE (30 MARKS)

- a) IAS 41 establishes the standard of accounting for agricultural activities. Explain any four features of farm transactions. (8 marks)
- b) Wafula intends to purchase a television on installment basis due to his financial status. His friend Oduor advises him to purchase the television on hire-purchase system instead. Explain to Wafula any four differences between the two systems which will enable him to select the best method to use. (8 marks)
- c) On 1st April 2016 Transport company took three cars of the cash sale price of ksh. 800,000 each on hire purchase system from Tata motors Ltd. The terms of hire purchase contract include total cash down payment of ksh. 600,000 and payment of the remaining cash price of the cars in three equal annual installments together with interest at 12% per annum on outstanding balances, the installments with interest being payable on 31st march every year.

The first year dues were duly paid but there after the hire vender failed. Consequently Tata motors served notice for repossession of the cars. But after negotiation Tata motors agreed to leave one car with the hire purchaser and adjust the value of the other two cars against outstanding amount. TransportCompany provided depreciation at 20% per annum on reducing balance but Tata Motors took back the cars valuing them on the basis of 25% annual depreciation on straight line basis. The hire vendor sold the repossessed cars for a total sum of ksh. 1,120,000 after spending ksh.200,000 to renovate the cars.

Required: Prepare the necessary ledger accounts in the books of

- i. Transport company (7 marks)
- ii. Tata motors Ltd. (7 marks)

Assume that both companies close their books on 31st march every year.

QUESTION TWO (20 MARKS)

- a) Explain the following terms as used in insurance(4 marks)
 - i. Endowment policy
 - ii. Commission on reinsurance ceded
 - iii. Commission on reinsurance accepted
 - iv. Surrender value
- b) The following trial balance was extracted from the books of Good luck life assurance company as on 31st March 2017.

	Sh.000	Sh. 000
Paid up capital 200,000 shares @ sh. 10		2,000
Life assurance fund as on 1 st April 2016		59,446
Bonus to policy holders	630	
Premium received		3,230
Claims paid	3,940	
Commission paid	186	
Management expenses	646	
Mortgages	9,844	

Interest Dividends and rent		2,254
Agents balances	186	
Investment properties- real estate	800	
Investments	46,100	
Loan on companies policies	3,472	
Cash on deposits	540	
Cash in hand and on current account	446	
Surrenders	<u>140</u>	
	<u>66,930</u>	<u>66,930</u>

Additional information as at 31st march 2017

	Sh.000
Claims admitted but not paid	186
Management expenses due	4
Interest accrued	386
Premiums outstanding	240
Required	

- Revenue account as on 31st March 2017 (8marks).
- Statement of financial position as on 31st March 2017(8marks).

QUESTION THREE (20 MARKS)

The following trial balance has been extracted from the books of ABC insurance company as at 31 December 2017

	DR sh 000	CR sh. 000
Net premium written		
Fire	53,186	
Motor	107,691	
Unearned premium as at 1/1/17		
Fire	36,018	
Motor	72,037	
Net commission paid		
Fire	1,733	
Motor	3,469	
Net claim paid		
Fire	27,892	
Motor	55,781	
Net claim outstanding as at 1/1/2017		
Fire		36,018
Motor		72,037
Management expenses to be charged to revenue a/c	77,554	
Management not charged to revenue a/c	10,000	
Bad and doubtful depth	2,500	
Treasury bills	99,550	
Treasury bonds	5,693	
Motor vehicle	500	
Deposit in bank	237,050	
Equipment (NBV)	7,207	
Bank overdraft		8,000
Amount development to other insurance companies		2,000

Amount development from other insurance companies	3,470	
Share capital		60,000
Investment income		36,000
Other income		8,782
Revalued reserve		25,000
Retained earnings 1/1/2017		15,000
	532,399	532,399

Additional information

- i. Management expense to apportioned on the basis of net premium written to revenue account
- ii. Management made the following expenses for the year ended 31 December 2017

Unearned premium	Fire	2,000 000
	Motor	30,000 000
Net balance	Fire	45,000 000
	Motor	79,000 000

Required

- a) Revenue account for motor and fire department as at 31st Dec 2017 (10mks)
- b) Income statement for the year ended 31st Dec 2017 (5mks)
- c) Statement of financial period as at 31st Dec 2017 (5mks)

QUESTION FOUR (20 MARKS)

- a) IAS 17 accounting for leases recommends application of substance over form. Identify the two types of leases and give any four characteristic of each (8 marks)
- b) The following figures are extracted from the books of City bank Ltd as on 31st march 2017

Item	sh.
Interest and discount received	7,391,476
Interest paid on deposit	4,064,904
Issued and subscribed capital	2,000,000
Reserve	400,000
Profit on sale of investments	400,000
Salaries and allowances	400,000
Directors fees and allowances	60,000
Rent and rates paid	200,000
Postage and telegrams	101,172
Depreciation on bank properties	60,000
Printing and stationery	100,000
Preliminary expenses	30,000
Audit fees	10,000
Commission exchange and brokerage	400,000

Additional information

- a. A customer to whom a sum of sh. 200,000 had been advanced has become insolvent and its expected that only 50% can be recovered from his estates. Interest due 18% on his debt has not been provided in the books.
- b. There was another advance for which provision of sh. 300,000 was considered necessary by the auditors.
- c. Rebate on bills discounted as on 31st march 2016 sh. 24,000 Rebate on bills discounted as on 31st march 2014 sh. 32,000
- d. Tax provision to be made for sh.1,200,000tax rate 30%.
- e. Directors suggest a dividend of 10%

Prepare Income statement for city bank Ltd in prescribed form as per the banking act.

(12 marks)