



Knowledge for Development
KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE
COURSE CODE : BCA 311

COURSE TITLE : SPECIALIZED FINANCIAL ACCOUNTING.

DATE: 19th JULY, 2021

9.00 - 11.00 Am TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

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

KIBUCO observes ZERO tolerance to examination cheating

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

SECTION A

QUESTION ONE.

ABC Ltd. took from PQ Ltd. a lease of Coal field for a period of 20 years from 1st July, 2008 on royalty of Kshs 200 per tonne of coal extracted with Dead Rent of Kshs 1,400,000 a year with Power to recoup Short Workings during the first five years of the lease. The company closes its books of account on 30th June, every year.

The output in the first five years of the lease was as follows:

Year ended 30 th June, 2008.....	2, 400 tonnes.
Year ended 30 th June, 2009.....	4,600 tonnes
Year ended 30 th June, 2010.....	8,800 tonnes
Year ended 30 th June, 2011.....	15,000 tonnes
Year ended 30 th June, 2012.....	18,000 tonnes

Required.

- (a) Pass journal entries for all the transactions relating to royalties for the five years in the books of ABC Co.Ltd. **(6 Marks).**
 - (b) Suppose output for the year ended 31st March, 2011 was 13,000 tonnes only, what would be the journal entries for the year 2011-12. **(6 Marks).**
- (a) Kitale Steel Works Ltd financial year usually ends on 31st December. On 31st December, 2000, they purchased a new Lathe machine on hire purchase from XYZ Ltd.Nairobi.The cash Price of the Machine was Kshs 800,000.Kitale Steel Works Ltd made a down payment of Kshs 250,000 on the date of purchase. They paid three instalments of Kshs 228,000 each on 31st December 2001, 31st December, 2002 and 31st December, 2003.The Vendor charges interest at the rate of 12 percent on the outstanding balance on 1st January each year. The machine account was maintained at cost and a separate depreciation provision account was created to record accumulated depreciation. Bungoma Printers charge depreciation at 25 percent on a reducing balance method.

Required.

- (i) Prepare the following accounts in the books of Bungoma Printers for the period of the contract:
 - 1. Machinery on Hire Purchase Account.
 - 2. XYZ Ltd. account.
 - 3. Hire Purchase Interest Payable Account.
 - 4. Provision for depreciation on Machinery account.
- (ii) The Balance Sheet of Kitale Steel Works Ltd. at 31st December, 2001. **(12 Marks).**

- (b) IAS 17(Leases) requires the preparers of financial statements to consider substance over form in the lease arrangements when determining the type of lease for accounting purpose.
Discuss. (4 Marks).
- (c) Distinguish between Minimum Rent and Shortworkings in royalty accounting. (2 Marks)

SECTION B.

QUESTION TWO – 20 MARKS.

The following balances were extracted from the books ABN Bank Ltd.as at 31st December, 2016.

Particulars	Sh '000	Sh '000
Debts due to other banks		18,000
Bills receivable	32,000	
Customers' liability for acceptance	34,200	
Rebate on bills discounted		490
Reserve fund		25,000
Dividend equalization fund		3,000
Share capital		28,000
Interest and discount received		44,800
Exchange and commission received		1,800
Profit and Loss B/F		6,800
Cash in hand	660	
Cash with other banks	8,400	
Money at call and short notice	2,800	
Bills payable		27,600
Liability for customers' acceptance		43,000
Investment in Kenya Government securities	66,000	
Investment in marketable securities	5,400	
Accrued interest on investments	670	
Loans and advances	63,000	
Bills purchased and discounted	36,600	
Furniture, fixtures and equipment	780	
Depreciation (Buildings)	400	
Repairs	540	
Exchange and commission paid	430	
Salaries	24,550	
Directors' fees and remuneration	90	

Stationery/Advertising	320	
Miscellaneous expenses	650	
Land and Buildings	42,000	
Current A/C deposits		42,000
Savings bank accounts		30,800
Fixed and time deposits		47,900
Sundry creditors		1800
Interest paid	1,500	
	320,990	320,990

Additional Information.

1. Interest earned on investments but not yet received is Kshs 9,200,000
2. Liability in respect of forward exchange contracts outstanding is Kshs 5,800,000.
3. Transfer to dividend equalization fund – Kshs 600,000.
4. Provision for taxation should be Kshs 900,000.
5. Accumulated depreciation on buildings – Kshs – 1,200,000.

QUESTION THREE.- (20 MARKS)

Following are details from the books of Bidii Farm for the year ending **31st December, 2015.**

Particulars	Opening Stock Kshs	Closing Stock Kshs
Cattle	86,000	92,000
Poultry	26,000	38,000
Fish	25,000	37,000
Chemicals and Fertilizers	23,000	19,000
Cattle Feed	16,000	12,000
Poultry Feed	1700	1,500
Seeds	3,400	4,200
Crops	7,200	13,000
Growing Crops	5,400	7,800

Purchases during the year 2015 were as follows:

Particulars	Amount – Kshs
Cattle	25,000
Poultry	14,000
Fish Spam	6,800
Cattle Feed	11,300
Poultry Feed	7,200
Fertilizers	7,000

Sales during the year 2015 were as follows:

Particulars	Amount - Kshs
Cattle	17,000
Poultry	18,000
Fish	12,000
Fruits	6,000
Vegetables	9,000
Crops	35,000
Milk	31,000
Flowers	4,200
Butter	1500
Eggs	7,800

Other expenses for all divisions were as follows:

		<u>Kshs.</u>
Wages	-	19,000
Insurance	-	7800
Repairs	-	5,500
Depreciation	-	5,000
Rent and Taxes	-	5,400

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

Particulars	Workers Kshs	Proprietor Kshs
Poultry	2,200	1,100
Fish	2,900	1,600
Fruits	220	1,200
Vegetables	1,400	700
Milk	900	1300
Eggs	400	600
Butter	-	600

Required.

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

- (1) Dairy
- (2) Poultry
- (3) Fish
- (4) Agricultural Crops.
- (5) Profit and Loss Account

(20 Marks).

QUESTION FOUR.

The following balances appeared in the books of Heritage Life Assurance Ltd.as at 31st December, 2018.

PARTICULARS	Kshs
Claims less reinsurances paid during the year:	
By death.....	32,560,000
By Maturity.....	18,760,980
Annuities	560,000
Furniture and Fixtures and Office Equipment at cost	354,600
Stationery Office	120,000
Cash with Bank	19,450,980
Cash and stamps in hand	450,000
Surrenders and Reinsurances	890,000
Commission	3,509,800
Management Expenses	17,689,000
Deposits with utility companies	45,000
Advance payment of Income tax	780,000
Sundry Debtors	570,000
Agent's balances	1,800,000
Income tax	4,500,000
Tax on Dividends, Interest and rent	5,000,000
Loans and Mortgages	1,758,000
Loans on Policies	42,005,600
Investments	65,000,000
Real estate property	12,000,000
	227,803,960
Life Assurance Fund at the beginning of the year	156,670,000
Premiums less reassurances	3,570,000
Claims less reassurances outstanding at the beginning of the year:	
By death.....	7,851,920
By Maturity.....	5,605,660

Credit balances pending adjustment	750,800
Consideration for Annuities granted	40,000
Interest, Dividends and rents	18,670
Registration and other fees	34,000
Sundry Deposits	1,200,560
Provision for taxation	
Premium Deposits	11,676,800
Sundry Creditors	3,527,750
Contingency reserve	151,660
Furniture and Office Equipment Depreciation Account	423,600
Building Depreciation Account	33,781,980
	227,803,960

Additional Information:

- (a) Claims less reassurances outstanding at the end of the year: By death Kshs 780, 000, By Maturity, Kshs 540,000.
- (b) Expenses outstanding Kshs 300, 000, Prepaid Kshs 120,000.
- (c) Furniture valued at Kshs 68,000 was acquired during the year.
- (d) Depreciation on buildings to be provided at Kshs 54,000, Kshs 35,000 for depreciation on Furniture and office equipment and Kshs 282,000 for taxation.
- (e) Premium outstanding: Kshs 3, 540, 000, Commission thereon Kshs 85,000.
- (f) Interest, Dividends and Rent outstanding - Kshs 5,406,704 Interest and Rent Accrued – Kshs 120,980.
- (g) Bonus paid during the year was Kshs 760,000.
- (h) Net Liability has been ascertained at Kshs 14,000,000.**

Required.

Prepare the revenue account for Heritage Life Assurance Co. Ltd as well as its Profit and Loss Account for the period ended 31st December, 2018. **(20 Marks).**

QUESTION FIVE.

- (a) Following particulars are available about a Lease in respect of XY Bulldozer.
 - Lessor's Cost of leased Bulldozer - Kshs 15,600,500
 - Fair Value of the leased Bulldozer at the inception of lease (01.01.2016) - Kshs 16,500,000.
 - The Lease term is four years payable in advance every year. The estimated residual value of the Bulldozer at the end of the leased term is 6% of the cost of the asset to the lessor. The lessee has the right to continue the lease at the end of the aforesaid lease term at a nominal rent. The relevant Written Down Value (WDW) depreciation rate is 25%.

Required.

- (a) State with support of relevant workings whether the lease should be classified as Finance lease or an Operating lease. **(4 Marks).**