



*(Knowledge for Development)*

**KIBABII UNIVERSITY  
UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR  
THIRD YEAR FIRST SEMESTER  
MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELORS OF COMMERCE  
COURSE CODE: BCA 311  
COURSE TITLE: SPECIALISED ACCOUNTING**

**DATE: 23<sup>RD</sup> MAY, 2022**

**TIME: 2.00PM - 4.00PM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.

**SECTION A ANSWER QUESTION ONE COMPULSORY**  
**QUESTION ONE ( 30 MARKS)**

- a) Give any four objectives of farm accounting. (4 marks)
- b) IAS 41 establishes the standard of accounting for agricultural activities. Explain any five features of farm transactions. (5 marks)
- c) Given below is the trial balance of ADK Farm Ltd as at 31 December 2018:

	Sh.'000'	Sh.'000'
Ordinary share capital		5,000
Share premium		400
Land and buildings	4,500	
Farm machinery	2,200	
Sundry debtors	580	
Cash in hand	320	
Loan (crop)		800
Retained profits		500
Bank overdraft		120
Accumulated depreciation – Farm machinery		440
Sundry creditors		300
Stocks on 1 January 2018:		
Growing crops, wheat, seeds and fertilizers	180	
Livestock	280	
Farm labour	105	
Salaries and wages:		
Manager	120	
Farm labour	110	
Office expenses	280	
Crop expenses	210	
Livestock expenses	250	
Livestock purchases	670	
Purchase of feeding materials	120	
Farmhouse expenses	25	
Staff meals	10	
Repairs to machinery	30	
Interest on loan	40	
Tools and implements	120	
Sales of wheat		1,050
Sales of livestock		1,500
Manager's account		40
	<u>10,150</u>	<u>10,150</u>

The following additional information is provided:

1. On 31 December 2018, the value of stocks were as given below:

	Sh.'000'
Livestock	240
Feeding materials	130
Growing crops, wheat, seeds and fertilizers	20
Tools and implements	100

2. Depreciation on tools and implements is apportioned equally between livestock and crop activities.
3. Farm machinery is depreciated at the rate of 5% per annum on cost.
4. Manager's salary and staff meals should be divided between livestock and crop activities in the ratio 3:2 respectively.

**Required:**

- (i) Livestock account for the year ended 31 December 2018. (7marks)
- (ii) Crop account for the year ended 31 December 2018. (7 marks)
- (iii) Balance sheet as at 31 December 2018. (7 marks)

**(Total 30 marks)**

**QUESTION TWO ( 20 MARKS)**

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

	Sh.000	Sh. 000
Paid up capital 200,000 shares @ sh. 10		2,000
Life assurance fund as on 1 <sup>st</sup> 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	140	
	<u>66,930</u>	<u>66,930</u>

Additional information as at 31<sup>st</sup> march 2017

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

Required

- i. Revenue account as on 31<sup>st</sup> March 2017 ( 8marks).
- ii. Statement of financial position as on 31<sup>st</sup> March 2017( 8marks).

(Total 20 marks)

**QUESTION THREE ( 20 MARKS)**

- a) Give five differences between hire purchase and installment payment systems. 5marks
- b) Transport corporation purchased a truck on HP system from kk motors for sh. 56million payments to be made sh. 15million down cash and three installments of sh. 15million each at the end of each year. Rate of interest is charged at 5%. Buyer depreciates assets at transport 10% pa on written down value method. Due to financial difficulties could not pay the second installments and kk motors took possession of the truck and after spending sh.350,000 on repairs of the truck sold it for 30.11 million.

**Required**

- i. Prepare truck account and sellers account in the books of the buyer transport corporation for the two years. (8mks)
- ii. The purchaser account and goods on hire purchase returned account in the books of kk motors for the two years. (7mks)

(Total 20 marks)

**QUESTION FOUR ( 20 MARKS)**

- a) Explain the following terms as used in bank accounts (4 marks)
  - I. Bills discounted
  - II. Doubtful assets
- b) Hamara bank has the following information in the books of accounts for the year ending 31<sup>st</sup> march 2018

	Sh.000,000
Interest and discount	4,430
Other income	125
Interest account on investment	10
Interest expended	1,360

Operating expense	1,331
Rebate on bills discounted 31/3/2018	15
Rebate on bills discounted 1/4/2017	30
<b>Classification of advance</b>	
Standard asset	2,500
Sub-standard asset	560
Doubtful asset not covered by security	225
<b>Doubtful covered by security</b>	
For 1 year	25
For 2 year	50
For 3 year	100
For 4 year	75
Loss asset	100

Make tax provision @ 30% of the profit. Profit and loss account brought forward from the previous year sh 40,000,000 cr.

**Required:**

- i. The income statement of Hamara bank limited as at 31<sup>st</sup> march 2018 (8marks)
  - ii. Statement of financial position as at 31<sup>st</sup> march 2018 (8 marks)
- (Total 20 marks)**

**QUESTION FIVE ( 20 MARKS)**

- a) Distinguish between a finance lease and an operating lease indicating how they should be treated in the financial statements as per International Accounting Standard (IAS) 17 Leases (10 marks)
- b) On 1 January 2018, Kamulu Limited leased a machine from General Machines Ltd. under a finance lease agreement. Kamulu Limited was to make instalment lease payments of Sh. 14,000,000 every six months on 30 June and 31 December in arrears. The first payment was made on 30 June 2018. The fair value of the machine was Sh.60,000,000 with an estimated useful life of 3 years. The interest rate implicit in the lease was 10% per six months.

**Required:**

- i. Journal entries for the years ended 31 December 2018 and 2019. (5 marks)
- ii. Extracts of the statement of financial position as at December 2018 and 2019. (5 marks)

**(Total 20 marks)**