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(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
SPECIAL/SUPPLEMENTARY EXAMINATION

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

DATE: 28TH JULY, 2022

TIME: 11.00 - 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 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)

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> | |

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 | |

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

QUESTION THREE (20 MARKS)

- a. Explain the following terms as used in special accounts (1 mark each)
 - i) Short workings
 - ii) Minimum rent
 - iii) Recoupment of short workings
 - iv) Royalty
- b. P.Quick obtains a lease from R Rich to work a mine, the terms being sh. 10 per tone merging into a minimum rent of sh.20,000 per annum, there being granted to the lessee the right to recoup shortworkings during the first four years of the lease. P.Quick sublets part of the property to V.Poor the terms being a royalty of sh. 12.50 per tone merging in a minimum rent of sh.9,600 per annum. V. Poor has the right to recoup in the two years following the short workings. The amount of ore in tones extracted was as follows.

| Year | P Quick | V.Poor | Total |
|------|---------|--------|-------|
| 1 | 1,100 | 400 | 1,500 |
| 2 | 1,160 | 540 | 1,700 |
| 3 | 1,300 | 700 | 2,000 |
| 4 | 1,400 | 900 | 2,300 |

Draw the following accounts in the books of P Quick.

- i. Royalty payable account (4 marks)
- ii. Rich account (4 marks)
- iii. Shortworkings account (4 marks)
- iv. V. Poor account (4 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following terms as used in bank accounts (4 marks)
 - I. Standard asset
 - II. Doubtful assets

- b) Hamara bank has the following information in the books of accounts for the year ending 31st 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 |
| Classification of advance | |
| Standard asset | 2,500 |
| Sub-standard asset | 560 |
| Doubtful asset not covered by security | 225 |
| Doubtful covered by security | |
| 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. Amount of provision that will appear at the income statement as at 31st march 2018 (8mrks)
- ii. The income statement of Hamara bank limited as at 31st march 2018 (8mrks)

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. Extracts of the statement of comprehensive income 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)