



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 301: ADVANCED FINANCIAL ACCOUNTING TECHNIQUES.

DATE: 10TH APRIL, 2018

TIME: 10.30-12.30PM

Instructions:

Answer question one and any other two

Question one

- a. What is the basic principle involved in accounting for Hire Purchase Transactions? Describe how that Principle is accommodated by two of the accounting methods commonly used to account for Hire Purchase Transactions. (10 marks)
- b. Neilson Electronics commenced business on 1st April, 19-3, selling television sets both on a cash basis and b by instalments. Instalment sales required a deposit of one third of the cash selling price with the balance payable in 18 equal monthly instalments. No additional charge is made for this service. At the end of each financial year, the firm takes credit for the profit on instalment sales only in respect of proportion represented by deposits and instalments actually received.

The following transactions took place during the two years ended 31st March, 19_5:

	19_4	19_5
	£	£
Cash Sales	32,022	43,770
Instalments Sales	282,978	397,980

New TV sets purchased	231,000	250,379
Cash collections on instalment contracts:		
Initial deposit	94,326	132,660
Monthly instalments - 19_4 Sales	64,413	92,079
- 19_5 Sales		83,940
Stocks at 31st March:		
New sets at cost	54,600	72,015

Required:

- i) Prepare trading accounts in respect of cash sales for each of the years ended 31st March, 19_4 and 31st March 19_5.
- ii) Show the gross profit on instalment sales for each of the years ending 31st March, 19_4, and 31st March 19_5. (20 marks)

Question two

Computer Hackers (K) Ltd entered into a collaboration agreement with Microsoft Inc (USA) under which the former were to pay the latter a royalty of 20% on the sales of Microsoft products during each quarter of the calendar year, subject to deduction of withholding tax in Kenya (at 10%). However, the remittance in any such quarter should not be less than US\$750; the shortworkings being recoupable out of royalties payable in subsequent quarters during the same calendar, but not beyond. The following are the sales figures for Computer Hackers (K) Ltd:

Quarter ended	Sales (Kshs)
31.3.98	100,000
30.6.98	200,000
30.9.98	150,000
31.12.98	375,000
31.3.99	400,000
30.6.99	450,000

The agreement commenced on 1 January 1998. The rate of exchange may be taken at US\$1 to Ksh60 for remittances up to 30th November 1998, and thereafter at US\$1 to Ksh72. The agreement provided for remittances to be made within 15 days of the end of the quarter, which Computer Hackers complied with.

Required: Show the royalties payable, shortworkings and landlord A/C in the books of Computer Hackers Ltd, closing books as at 31 December 1998 and 30 June 1999. (20 marks)

Question three

(a) With reference to a bill of exchange write short notes on the following:

- Drawer;
- Acceptor;
- Endorser;
- Days of grace

(8 marks)

(b) The following information is available to you:

- (i) Mwaranjau of Uganda forwarded a consignment of goods to Lina and Co. of Kenya on 18 July 1992 drawing on the consignment, a three months' bill for Sh.70,000 representing 80% of the invoice value. Lina and Co. drew a cheque on their bankers on 21 October 1992 to meet the above bill.
- (ii) In order to finance the above transaction, Lina and Co. on 19 October 1992 drew a bill for three months on T.K. Bank for Sh.70,000 discounting this bill with T.K Bank, the latter holding documents of consignment as security. The discounting charge was Sh.1,000 and the commission was 0.5%. Lina and Co. received a cheque for the balance, which they deposited in their bank.

On 23 January 1993 the above mentioned bill (ii) was retrieved. Lina and Co. issued a cheque to meet it, whereupon they drew a new bill for three months for Sh.80,000 on T.K Bank and provided additional security. This bill was discounted by T.K Bank, at the same rate of commission as before. Discounting charges were Sh.1,100. Lina and Co. Ltd. received a cheque for the balance and banked it.

Required:

Ledger entries in Lina and Co.'s books (relating to the above transaction). (12 marks)

Question four

Mega company Ltd. sells its goods in returnable containers. The following information is relevant:

1. The containers are purchased at Sh. 400 each. Customers pay a deposit of Sh. 500 per container issued to them and a refund of Sh. 450 is made for each container returned within two weeks.
2. On January 2003, there were 5000 containers in the company's warehouse and 12,000 containers in customers' hands the return period of which has not expired.
3. In the year ended 31 December 2003, the Company purchased 10,000 containers. During the same period, the company issued 95,000 containers to customers. The return period of 3,000 of the containers still held by customers as at 31 December 2003 period of 3,000 of the containers still held by customers as at 31 December 2003 has expired.
4. The company scrapped 4,500 containers and sold them at Sh.180 each. Apart from the containers scrapped, 1,500 containers could not be accounted for and were written off.
5. In order to maintain the containers in proper condition, each container returned by a customer is pushed at a cost of Sh. 4 each.
6. At the end of the year, the company values containers in the warehouse and in customers' hands at Sh.300 each for stock taking purposes.

Required

- (i). Containers stock account for the year ended 31 December 2003
- (ii). Containers suspense account for the year ended 31 December 2003
- (iii). Containers profit and loss account for the year ended 31 December 2003

Question five

On April 2001, Dolly Manufacturers Ltd opened a branch in Zumala, a foreign country whose currency is the zuma (zm), to sell an assortment of dolls. The branch manager was authorised to purchase local dolls for resale, but it was expected that the major proportion of the sales would be the dolls supplied by the head office in Kenya.

On 31 March 2002, the trial balance of the head office and branch were as follows;

Trial balance as at 31 March 2002				
	Head Office		Branch	
	Ksh	Ksh	Ksh	Ksh
Share capital		50,000,000		
Reserves		20,000,000		
Profit and loss a/c		12,000,000		
Premises at cost	45,000,000			
Fixtures and fittings	16,000,000		94,500,000	
Provision for dep. fixtures & fittings		6,400,000		
Stock 1 April 2001	14,050,000			
Debtors	17,550,000		35,100,000	
Creditors		4,500,000		12,336,000
Bank balance	9,200,000		27,084,000	
Cash in hand	980,000		8,598,000	
Sales		101,090,000		277,233,000
Purchases	65,630,000		48,807,000	
Goods sent to branch		13,520,000		
Goods received from head office			156,500,000	
Branch current account	15,900,000			
Head office current account				129,350,000
Branch stock adjustment account		3,380,000		

Administration expenses	19,250,000		28,514,600	
Distribution expenses	<u>7,330,000</u>	<u> </u>	<u>19,815,400</u>	<u> </u>
	210,890,000	210,890,000	418,919,000	418,919,000

Additional information

1. Stock on hand as at 31 March 2002 was;

Stock on hand as at 31 March 2002 was

Head office	Ksh.28,500,000
Branch;	
From head office	Zm.12,000,000
From local purchases	Zm.9,775,000

2. Goods were invoiced by head office to branch at cost plus 23%. The branch sold the goods at invoiced price plus 50%. Goods sent to branch from head office were converted at affixed rate of 10 Zumas to 1 Ksh.
3. On 31 March 2002, goods in transit from head office to branch were at an invoiced value of Ksh.1,250,000
4. A remittance of Zm 5,800,000 from branch to head office was in transit On 31 March 2002. The remittance was converted at Zm.12.5 to Ksh.1
5. The fixtures and fittings were acquired when the exchange rate was Zm 10.5 to Ksh.1 on 1 July 2001.
6. Depreciation of the head office and branch fixtures and fittings is to be provided at the rate of 10% per annum on cost. A full year's depreciation should be provided branch fixtures and fittings.
7. The branch manager was to be allowed a commission of 2% on the sales of dolls supplied by the head office.
8. Rates of exchange at other dates were;

	Zumus		Ksh.
1 June 2001	10	to	1
31 March 2002	12	to	1
Average for the year	11	to	1

Date of purchase of closing stock 11.5 to 1

Required

- (a). Trading, profit and loss account in columnar form for the head office, the branch and the combined business for the year ended 31 March 2002. (12 marks)
- (b). Balance sheet of the office, branch and the combined business as at 31 March 2002(8 marks)