



**The Co-operative University of Kenya**

**END OF SEMESTER EXAMINATIONS DECEMBER-2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE  
BUSINESS (YR IV SEM II)**

**UNIT CODE: HCOB 2321**

**UNIT TITLE: ADVANCED ACCOUNTING I**

**DATE: 9<sup>th</sup> DECEMBER 2019**

**TIME: 9:00 AM – 11:00 AM**

**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

- (a) Discuss the Post-employment benefit schemes (4 marks)
- (b) Discuss the concept of current purchasing power in accounting (6 marks)
- (c) Tumaini Limited sent goods to its branch in Thika and invoiced at selling price, which was cost plus 50% of cost. On 1st July 2018, the opening stock in Thika was Sh 3 million at selling price. Goods at selling price of Sh 16.5 million were received by Thika in the year ended 30th June 2019.

On 28th February 2019, goods valued at selling price of Sh 6 million were marked-up by a further 40% of cost price. 75% of these goods were sold in the year ended 30th June 2019. The remaining 25% were held in stock at 30th June 2019. Sales for the year ended 30th June 2019 amounted to Sh 16.8 million.

**Required:**

- i). Branch Stock account (4 marks)
- ii). Branch Mark-up account (4 marks)
- (d) On the 1<sup>st</sup> January 2018 the partners of G and Co and B & Co agreed to amalgamate their business. The new firm is to be called BG & Co. The initial capital of Sh 18,000 is to be shared as to one half share to the individual partners of B & Co. The division of the one-half share to the individual partners is to be in the ratio of their capital in the former partnerships. Any adjustments in the old partnerships are to be made personally between the partners. The balance sheets on 31<sup>st</sup> December 19-7 showed the following.

	G & Co		B & Co	
	Sh	Sh	Sh	Sh
Capital Accounts				
Alan	4,000		Desmond	4,000
Brian	3,000		Ernest	2,000
Colin	<u>2,000</u>		_____	
		9,000		6,000

### Current Accounts

Alan	800	Desmond	1,350
Brian	620	Ernest	1,250
Colin	<u>180</u>		<u>      </u>
	1,600		2,600
	<u>  900</u>		<u> 1,100</u>
	<u>11,500</u>		<u> 9,700</u>

### Non Current assets

Goodwill	1,500		1,750
Fixtures & Fittings	1,250		<u>1,000</u>
	2,750		2,750

### Current Assets

Receivables	7,000	6,000	
Work in progress	900	750	
Cash	850	<u>200</u>	
	<u>8,750</u>		<u>6,950</u>
	<u>11,5000</u>		<u> 9,700</u>

### Additional information

1. Goodwill in the new firm is to be Sh 4,000.
2. Fixtures and fittings are to be taken over from G & Co at a value of Sh 600 from B & CO at a value of Sh 500.
3. Receivables are to be taken over at the amounts shown in the old firms' balance sheets on 31<sup>st</sup> December 2017 less a discount of 5%. Work in progress is to be valued at 10% of the net debtors taken over. Responsibility for the creditors of both firms is to be assumed by the new firm.
4. The balance required for the initial capital is to be provided in cash.
5. All partners in the new firm are to receive a salary at the rate of Sh 4,000 per annum, interest on capital at 8% per annum, and share in the balance of profits/losses in proportion to their capital in the firm. No interest is to be given on current accounts.
6. The only drawings by each partner against his share of the profits were monthly payments of Sh 300 and an additional payment equal to 5% of his capital at the end of each quarter.
7. On 1<sup>st</sup> October 2018 Desmond was killed in a motor accident. A repayment of capital amounting to Sh 1,000 was made immediately to his estate but no further payments were made in October 2018. Interest on the outstanding capital account was agreed at 10% per annum but this should be based on the initial capital less the amount paid. No adjustments were made to the remaining partners' capital accounts and the profit-sharing ratios between the individual partners did not change.

8. Profits for the year ended 31<sup>st</sup> December 2018 amounted to Sh 37,472 before charging interest on amounts due to Desmond.

**Required:**

- i). The initial statement of financial position of BG & Co immediately after the amalgamation (6 marks)
- ii). Partners' current accounts in columnar form for the year ended 31<sup>st</sup> December 2018. (6 marks)

**QUESTION TWO**

- (a) Explain the THREE main types of royalties (6 marks)

- (b) Belly enterprises from Nepal consigned on 15th March 2018, 45 cartons at a price of Sh.41,235,000 to Lemaiyan in Narok for sale at a commission of 5% of gross sales proceeds. Belly paid freight and carriage amounting to Sh.539,000.

The goods arrived at Narok on 20th March 2018, and Lemaiyan. paid railway clearing charges Sh 235,000, sundry charges Sh 59,000, Carriage Sh 102,000, and go down charges Sh 90,000.

The goods were sold by Lemaiyan as follows:

- 15 cases at Sh 1,003,000 per case,
- 22 cases at Sh1,050,000 per case, and
- The remainder at Sh 10,000,000

On 21st June 2018, Lemaiyan sent a draft for Sh10,000,000 to Belly on account.

On 1st July 2018, Lemaiyan forwarded an account-sales together with a bill of exchange for the balance.

**Required:** Prepare the necessary accounts to record the above transactions in the books of both the consignor and the consignee (14 marks)

**QUESTION THREE**

- (a) Define term Vested employee benefits as used in retirement benefits (2 marks)
- (b) An engineer who had patented a machine gave Innovative manufacturers Ltd the right to produce and sell the machine under licence for seven years. The stipulated terms were as follows:

A royalty of Sh.400 to be paid on each machine sold.

A minimum rent of sh.200,000 per annum.

Should short workings arise in any year, a right to recoup such short workings in the following two years.

The number of machines sold was:

2015: 400 units

2016: 450 units

2017: 540 units

2018: 650 units

**Required:** Prepare the following accounts in the book of Innovative Manufacturers.

- i). Royalties payable A/C (6 marks)
  - ii). Shortworkings A/C (6 marks)
  - iii). Landlord A/C (6 marks)
- (a)

**QUESTION FOUR**

- (a) Highlight the major differences between a consignment and a sale (6 marks)
- (b) Molly purchased on 1 January 2010, two vehicles from Nelly on hire purchase system. The cash price was payable as Sh 240,000 down for each vehicle, and the balance in 3 equal instalments together with interest at 10% per annum. The amount of the last instalment was Sh704,000. Depreciation was to be provided at 20% per annum on reducing balances. Molly paid the two instalments on 31 Dec. 2010 and 31 Dec. 2011 but could not pay the instalment due on 31 Dec. 2012.

Nelly repossessed one vehicle, adjusting its value against the amount due. The repossession was done on the basis of 25% depreciation on original cost method. Nee spent Sh100,000 to recondition the vehicle for resale. Proceeds upon resale were Sh620,000.

**Required:** Relevant accounts in the books of Molly and Nelly to record the above transactions (14 marks)