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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF COMMERCE**

**ACC 321 : SPECIALIZED FINANCIAL ACCOUNTING**

**DATE: 30<sup>TH</sup> JULY 2024**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

**QUESTION ONE**

On 1 April 2019, Marube, Kinyanjui, Wambua and Gachara entered into a joint venture for the purposes of importing second hand cars from Dubai and selling them in Eldoret town. The profit or loss from the venture was to be shared as follows: Marube 10%. Kinyanjui 20%. Wambua 30% and Gachara 40%. Marube was assigned the responsibility of going to Dubai to buy the cars. Kinyanjui was to clear the cars at the port of Mombasa. Wambua was to transport the cars from Mombasa to Eldoret and Gachara was to sell the cars once they were received in Eldoret. The following is a summary of the transactions undertaken:

1. Gachara remitted sh.4 million to Marube and Wambua remitted Sh.500,000 to Kinyanjui towards the joint venture.
2. Marube incurred the following expenses on behalf of the joint venture:

	Sh.
Travelling expenses	45,000
Entertainment	45,000
Purchase of cars	3,600,000
Shopping expenses	1,710,000

3. Kinyanjui received the purchase and consignment documents from Marube and incurred the following expenses to clear the cars:

	Sh.
Customs duty	1,860,000
Clearing agents' fees	200,000

4. While transporting the cars from Mombasa, Wambua incurred the following expenses:

	Sh.
General expenses	162,000
Haulage	135,000
Insurance	235,800

5. In order to sell the cars, Gachara incurred the following expenses:

	Sh.
Security	126,000
Storage charges	81,000
Sales commissions	264,600

6. Gachara sold some cars for Sh.7,900 and the remaining ones were taken over by Kinyanjui for his own use at a value of Sh.1,350,000
7. All the transactions were completed by 31 May 2019.

**Required:**

- i) Memorandum joint venture profit and loss account for the two months ended 31 May 2022 (5 Marks)
- ii) The joint venture accounts for the two months ended 31 May 2022 in the books of
- Marube (5 Marks)
  - Kinyanjui (5 Marks)
  - Wambua (5 Marks)
  - Gachara. (5 Marks)

**QUESTION TWO**

- a) Distinguish between long term investment and short-term investment. (5 Marks)
- b) Mwalu Traders Ltd. sells most of its goods through consignees. One of the consignees is Bali Enterprises Ltd. who operates in Mombasa. Bali Enterprises Ltd. is entitled to a commission of 5% on sales. Given below are the transactions carried out between Mwalu Traders Ltd. and Bali Enterprises Ltd. for the three months ended 31 October 2022.

August	-	<p>A consignment of 500 bicycles each costing Sh.4,000 was sent to Bali Enterprises Ltd.</p> <p>Mwalu Traders Ltd. paid packing costs Sh.80,000, freight Sh.100,000 and insurance Sh.40,000.</p> <p><b>Bali Enterprises Ltd. paid carriage-in costs of Sh.18,000 from the railway station to the trading premises.</b></p> <p>Bali Enterprises Ltd. also paid Sh.12,000 with respect to offloading the bicycles.</p>
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September	-	<p>Bali Enterprises Ltd. sold 300 bicycles at Sh.6,000 each and paid carriage out-costs of Sh.30,000</p> <p>In order to sell the remaining 200 bicycles, they were fitted with head lamps at a total cost of Sh.50,000, the amount being paid by Bali Enterprises Ltd.</p> <p>Bali Enterprises Ltd. paid storage costs of Sh.18,000 and advertisement costs of Sh.20,000.</p>
October	-	<p>Bali Enterprises Ltd. sold 160 bicycles at Sh.6,500 each.</p> <p>Bali Enterprises Ltd. sent account sales to Mwalu Traders Ltd. accompanied by a cheque for Sh.2,150,000 after deducting its commission and payments on behalf of the consignor, the balance remaining as a debt due to Mwalu Traders Ltd.</p> <p>Mwalu Traders Ltd. prepares separate trading and profit and loss accounts for consignment sales made through each consignee.</p>

**Required:**

- (a) In the books of Mwalu Traders Ltd:
- (i) Consignment out account. (5 Marks)
- (ii) Trading and profit and loss account for the three months ended 31 October 2022. (5 Marks)

**QUESTION THREE**

ABC Co. opened a branch at Kisumu. The following is the list of transactions between the Head office and the branch for the year ending March 31, 2001

Kshs.

Stock at Branch on 1st April, 2000	1,500
Goods supplied to Branch during the year	24,000

**Cash sent to Branch for**

- Salaries	1,200
- Rent	360
- Telephone expenses	100
- Petty Expenses	150
Stock on 31st March,2006	1,250
Balance of Petty Cash	10

All the branch expenses are paid by Head office.

Required:

- i. Prepare journal entries for the transactions **(10 Marks)**
- ii. Branch Account in the Head office books. **(5 Marks)**

**QUESTION FOUR**

- a) Discuss four features of hire purchase agreements. **(4 Marks)**
- b) A Brick Co., acquired on a 20 years lease, a large plot of land from Anoop for the purpose of geeing earth. The lease provides that:-
  - i. A premium or Nazrana of Kshs. 10,000 is to be paid to the landlord on 1st Jan, 1982 when the period of the lease commenced; and
  - ii. An annual royalty of 20 paise per 100 cubic feet of earth taken out is to be paid to him subject to a minimum rent of Kshs. 2,000 per year, any shortworkings to be recouped out of future excess royalty. This annual royalty is to be paid on 31st Dec. each year.

The quantity of earth extracted by the lessee in 2018, 2019 and 2020 was 8,000,000; 9,000,000 and 12,000,000 cubic feet respectively.

Required:

Enter these transactions in the ledger of the three years in the books of A Brick Co. **(11 Marks)**

**QUESTION FIVE**

- a) Examine four ways in which Long-term contracts should be disclosed in the balance sheet (10 Marks)
- b) Assume that a contract has the following data:
- (i) Contract price - Shs. 100,000,000
  - (ii) duration of contract - 4 years
  - (iii) Cost incurred by the end of year one - Shs. 27,000,000
  - (iv) At the end of year one, an estimate of costs to be incurred in years 2,3 and 4 (estimated costs to complete the contract) were - Shs. 63,000,000

**Required:**

Compute the amount of profit that may be reported in the P & L of year 1 (5 Marks)

**QUESTION SIX**

- a) On 1<sup>st</sup> April 2015, Mr. Karanja purchased 1,000 equity shares of Kshs. 100 each in TELCO Ltd. @ Kshs. 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per Kshs. 100 as cost of shares transfer stamps. On 31<sup>st</sup> January 2016 Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at Kshs 175 per share and Kshs. 90 per share respectively. On 31<sup>st</sup> march 2016 Mr. Karanja sold bonus shares to a Broker, who charged 2% brokerage.

**Required:**

Prepare an Investment Account in the books of Mr. Karanja, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower. (11 marks)

- b) Discuss two ways how bills of exchange are treated in accounting

(4 Marks)