

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 3 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBA 2301: FINANCIAL REPORTING**

**DATE: August 2015 TIME: 2 HOURS**

**INSTRUCTION: Answer Question ONE And Any Other Two Questions.**

**QUESTION ONE (30 marks)**

Abel, Seth and Cain have been in partnership sharing profits and losses in the ratio 2:2:1. Abel died on 5/6/2014 and the surviving partners decided to dissolve the partnership. The following is the statement of financial position as at 6/6/2014

Abel, Seth and Cain statement of financial position as at 6/6/2014

Non-Current Assets Shs Shs

Land and buildings 91,000

Plant and machinery 36,800

Fixtures and fittings 10,400

Motor vehicles 3,600

Good will 44,600 186,400

Current Assets

Inventory 34,000

Debtors 31,000

Bank 4,600

Cash 1,600 71,200

Total assets 257,600

Capital and liabilities

Capital accounts

Abel 50,000

Seth 32,000

Cain 20,000 102,000

Current accounts

Abel 16,000

Seth 11,000

Cain 0 27,000

Long term liability

Bank loan 80,000

Current liabilities

Trade payables 16,600

Bank overdraft 32,000 48,600

Total Capital and Liabilities 257,600

Additional information

1. Dissolution expenses amounted to shs900
2. Creditors were paid after discount received which amounted to shs500
3. The partnership has an assurance policy on the lives of partners in the event of death. The premiums had been charged to insurance expense and the cash payable on death of any partner is sh20,000
4. The assets were disposed as follows

Shs

1. Life policy on Abel’s life 20,000
2. Life policy on the lives of Seth and Cain surrendered 8,000
3. Land and buildings 90,000
4. Plant and machinery 36,800
5. Debtors 33,000
6. Motor vehicle 3,600
7. Fixtures and fittings 8,400
8. Inventory 34,000

Required

1. Bank account (10marks)
2. Realization account (10marks)
3. Capital accounts (5marks)
4. Discuss Joint Life Policy or Survivorship Policy as it relates to the death of a partner. (5marks)

**QUESTION TWO (20 marks)**

Mwalimu hardware’s had patented quick boiling kettle and gave Domestic Appliances company the right to manufacture and sell under a license for seven years. The stipulated terms were as follows

1. A royalty of shs 4 to be paid for each kettle sold
2. A minimum payment of sh20,000 per annum
3. The right to deduct shortworkings in two following years

The number of kettle sold was

Year Quantity

2006 4000

2007 4500

2008 5400

2009 6500

Required

1. Royalty payable account (5marks)
2. Landlords Account (10marks)
3. Short workings account (5marks)

**QUESTION THREE (20 marks)**

OSMOCATS LTD sold one refrigerator to Alexander on 1st January 2015 under the Hire purchase on the following terms;

Shs

Hire purchase price 120,000

Cash price 100,000

Down payment 30,000

* 10 monthly installments shs9,000 each payable on the last day of every month
* Alexander failed to pay the installment on 31st May 2015 and he informed OSMOCATS that he was not in a position to pay the remaining installments. OSMOCATS LTD repossessed the refrigerator which was valued as shs50,000

Required

Show the entries in the books of OSMOCATS whose financial year ends 31st December every year. (20marks)

**QUESTION FOUR (20 marks)**

1. The Head office charges branch at cost plus 25%. If the selling price is sh30,000 calculate the cost of goods (5marks)
2. Explain the main features of consignment (5marks)
3. UCHUMI LTD bought shs60,000, 10% loan stock of Safaricom Ltd on 1st January 2014 ex interest. Interest payable half yearly on 30th June and 31st December. Show entries in UCHUMI LTD ledger for the year ended 31st December 2014. (10marks)