LAIKIPIA UNIVERSITY COLLEGE- NYAHURURU CAMPUS

BCOM 413: SPECIALISED ACCOUNTING TECHNIQUES

JANUARY TO APRIL 2012 TIME: 2 HRS

ATTEMPT QUESTION 1 AND 2 OTHER QUESTIONS

1. Concept & Co., with its Head Office at Nairobi has a branch at Nyahururu. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2008. All figures in Kenya Shillings.

Goods sent to Branch (Invoice price) 480,000

Stock at Branch on 1.4.2007 (Invoice price) 24,000

Cash sales 180,000

Return of goods by customers to the Branch 6,000

Branch expenses (paid in cash) 53,500

Branch debtors balance on 1.4.2007 30,000

Discount allowed 1,000

Bad debts 1,500

Collection from Debtors 270,000

Branch debtors’ cheques returned dishonoured 5,000

Stock at Branch on 31.3.2008 (Invoice price) 48,000

Branch debtors balance on 31.3.2008 36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

(i) Nyahururu Branch Stock Account (8 mks).

(ii) Nyahururu Branch Debtors Account (8 mks).

(iii) Nyahururu Branch Adjustment Account (8 mks).

Also compute shortage of Stock at Branch, if any.

2. ABC Ltd. sells goods on Hire-purchase by adding 50% above cost. From the following particulars, prepare Hire-purchase Trading account to reveal the profit for the year ended 31.3.2008:

1.4.2007 Instalments due but not collected 10,000

1.4.2007 Stock at shop (at cost) 36,000

1.4.2007 Installment not yet due 18,000

31.3.2008 Stock at shop 40,000

31.3.2008 Instalments due but not collected 18,000

Other details:

Total instalments became due 132,000

Goods purchased 120,000

Cash received from customers 121,000

Goods on which due instalments could not be collected were repossessed and valued at 30% below original cost. The vendor spent Ksh. 500 on getting goods overhauled and then sold for Ksh. 2,800.

3

1. *For a lessee, a radical reporting difference exists between operating leases and capital/ finance leases. Company officials prefer operating leases so that the amount of reported liabilities is lower*. What is the distinction between an operating lease and a capital/ finance lease? (4 mks)
2. A capital/ finance lease is accounted for as a purchase because it so closely resembles the acquisition of the asset. An operating lease is less like a purchase and more like a rent. The lessee normally prefers to report such transactions as operating leases to reduce the amount of liabilities shown on its balance sheet*. How does an accountant determine whether a contract qualifies as a capita/ finance lease or an operating lease? (8 mks).*
3. On 1 April 2009 Nyahururu Co entered into an agreement to lease a machine that had an estimated life of four years. The lease period is also four years, at which point the asset will be returned to the leasing company. Annual rentals of Ksh.5,000 are payable in arrears from 31 March 2010. The machine is expected to have a nil residual value at the end of its life. The machine had a fair value of Ksh.14,275 at the inception of the lease. The lessor includes a finance cost of 15% per annum when calculating annual rentals. How should the lease be accounted for in the financial statements of Nyahururu for the year end 31 March 2010? (8 mks).

4**.**

a. Mrs. Atieno patented a quick boiling kettle and granted the right of manufacturing and marketing of the same to Home Equipments Ltd. under the license subject to the following terms:

a)     A royalty of Ksh.2 to be paid for each kettle sold.

b)     A minimum payment of Ksh.10,000 p.a.

c)      The right to deduct in the following two years any excess of the minimum rent over the actual royalties.

 The number of kettles sold was:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 1993 | 1994 | 1995 | 1996 |
| Number of kettles sold | 4,000 | 4,500 | 5,400 | 6,500 |

Prepare necessary accounts in the Books of Home Equipment Ltd. (12 mks)

b. Define the following terms;

* Royalties (2 mks).
* Short workings (2 mks).
* Recoupment of short workings (2 mks)
* Lessor (2 mks).

5.

a. Give the distinction between dependent and independent branches. Highlight the accounting treatment for each. (8 mks).

b. In accounting for foreign branches, currency translation is a major issue,

* Distinguish between an integral foreign operation and a non- integral foreign operation. (4 mks).
* Discuss in detail the two methods of foreign currency translation under both the integral and non-integral foreign operations (12 mks)