



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## UNIVERSITY EXAMINATIONS 2024/2025

### THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING

#### BFH 3303: SPECIALIZED ACCOUNTING I

**DATE: DECEMBER 2024**

**TIME: 2 HOURS**

**INSTRUCTIONS:** Answer Question ONE and any other TWO questions.

#### QUESTION ONE (30 MARKS)

- a) Explain the main difference between a consignment and a sale? (10marks)
- b) An engineer who had patented a machine gave Innovative Manufacturers Ltd the right to produce and sell the machine under license for seven years. The stipulated terms were as follows:
  - i. A royalty of Sh.400 to be paid on each machine sold.
  - ii. A minimum rent of sh.200,000 per annum.
  - iii. 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:

2017: 400 units  
2018: 450 units  
2019: 540 units  
2020: 650 units

#### Required:

Prepare the following accounts in the book of Innovative Manufacturers.

- i. Royalties payable A/C (6 marks)
- ii. Shortworkings A/ C (7 marks)
- iii. Landlord A/C (7 marks)



## **QUESTION TWO (20 MARKS)**

B, whose accounting year-ends on 31st May 1999 consigned 200 bags of sugar, each costing Sh300 to A of Nairobi on 1 April 1999. He paid Sh1,000 towards freight and insurance, 30 bags were damaged in transit; and on 31 st May 1999, the consignor received Sh2,000 on account of the damaged bags from the insurance company.

A took delivery of the goods on 10th April 1999 and immediately accepted a bill drawn on him for Sh40,000 for 60 days. On 31st May 1999 the consignee reported that:

- i. 140 bags were sold at Sh350 per bag;
- ii. The damaged bags were sold at Sh1 10 per bag; and
- iii. He had incurred the following expenses:
  - a) Godown rent Sh1,400
  - b) Clearing charges Sh1,700
  - c) Carriage outwards Sh600

He is entitled to a commission of 10% on the sales proceeds of all goods sold.

If A remits the balance due by bank draft on 31st May 1999, prepare the ledger accounts in the books of B. Assume that no portion of expenses incurred by the consignee is attributable to damaged bags.

### **Required:**

Prepare the accounts listed below in the books of B Ltd.

i. Goods sent on consignment account	(2 marks)
ii. Consignment account	(7 marks)
iii. Consignee (A ltd) account	(7 marks)
iv. Abnormal loss account	(4 marks)

## **QUESTION THREE (20 MARKS)**

The following balances were extracted from the books of Fedha Commercial Bank Ltd. on 30 June 2021.



	Sh.'000'	Sh.000
Government securities	1,172,000	
Loans and advances to customers	2,973,200	
Cash and balances with Central bank	628,500	
Other money market placements	17,300	
Property, plant and equipment	504,000	
Interest on loans and advances		435,400
Interest on Government securities		238,200
Foreign exchange income		72,000
Fees and commissions income		170,200
Deposits with other banks	115,000	
Other fixed assets	32,000	
Interest on placement and bank balances		36,000
Non-operating income		17,000
Customers deposits		4,240,000
Deposits and balances due to other banks		215,000
Depreciation expense	42,000	
Directors emoluments	12,500	
Bad and doubtful debts expense	34,000	
Interim dividends paid	25,000	
Staff costs	295,000	
Interest on customers deposits	115,000	
Interest on borrowed funds	35,000	
Ordinary share capital		250,000
Auditors remuneration	3,500	
Contribution to staff provident fund	14,500	
Loss on sale of fixed assets	21,800	
General administration expenses	142,500	
Reserves		529,000
Legal and professional fees.	<u>20,000</u>	
		<u>6,202,800</u>
		<u>6,202,800</u>



**Additional information:**

1. Current tax has been estimated at Sh. 120,000,000
2. Final dividends have been proposed at 10%.
3. Accrued interest expense on customers' deposits at 30 June 2021 was Sh.30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 30 June 2021.

**Required:**

(a) Profit and loss account for the year ended 30 June 2021. (14 marks)

(b) Statement of financial position as at 30 June 2021. (6 marks)

**QUESTION FOUR (20MARKS)**

The following trial balance has been extracted from the books of Lina Insurance Company Ltd as at 31 December 2022:

	Sh.	She
	'000'	'000'
Net premium written: Fire		53,816
Motor		107,691
Unearned premiums as at 1 January 2022: Fire		36,018
Motor		72,037
Net commissions paid: Fire		1,733
Motor		3,469
Net claims paid: Fire		27,892
Motor		55,781
Net claims outstanding as at 1 January 2022: Fire		36,018
Motor		72,037
Management expenses to be charged to revenue account		77,554
Management expenses not to be charged to revenue account		10,000
Bad and doubtful debts		2,500
Treasury bills		99,550
Treasury bonds		5,693



Motor vehicle (Net book value)	500
Deposits in banks	237,050
Equipment (Net book value)	7,207
Bank overdraft	8,000
Amounts due to other insurance companies	2,000
Amounts due from other insurance companies	3,470
Share capital	60,000
Investment income	36,000
Other income	8,782
Revaluation reserve	25,000
Retained earnings as at 1 January 2022	<u>15 000</u>
	<u>532,399</u>
	<u>532,399</u>

### **Additional information:**

1. Management expenses to be charged to revenue account are to be apportioned on the basis of net premiums written:
2. The management made the following estimates as at 31 December 2022:

		Sh..000
i.	Unearned Premiums: Fire	20,000
	Motor	30,000
ii.	Net claims outstanding: Fire	45,000
	Motor	79,000

**Required:**

a) Profit and loss account for the year ended 31 December 2002 (10 marks)  
b) Balance sheet as at 31 December 2002 (10 marks)

## **QUESTION FIVE (20MARKS)**

Write short notes on the following terms as used in specialized accounting

- i. Del credere Commission and Over-riding commission (5 marks)
- ii. Commission on reinsurance ceded and Commission on reinsurance accepted (5 marks)
- iii. Whole life policy and Endowment policy (5 marks)

iv. Restricted recoupment and floating recoupment (5 marks)

