BACHELOR OF COMMERCE

END OF SEMESTER EXAMINATION

BUA 4113: FINANCIAL ACCOUNTING IV

APRIL 2021

ONLINE CLASS

Instructions

i) **This exam paper contains SIX questions containing 10 marks each.**

ii) **Answer Question 1 (COMPULSORY) and any other THREE questions**

iii) **Read each question carefully before attempting.**

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QUESTION ONE

(a) Mheshimiwa finds it difficult to pay his liabilities in full, because of less assets, he is being harassed by his creditors. The creditors are pressing for payment. He has asked you as a finance manager to help with information on how to get off this problem.

(i) Explain the procedure or action he should take. (2 marks)

(ii) Describe the conditions which must be fulfilled for the creditors to go to court. (2 marks)

(b) As the portfolio manager of XYZ you are asked to advise on a wide range of investments. An intern has recently joined the organization and asked you to;

(i) Define Investments. (2 marks)

(ii) Explain Fair value. (2 marks)

(c) In a big multinational corporation, they undertake various works from various clients in contracts. As an accounting professional and with examples, distinguish between an ordinary contract from a long term one. (2 marks)

QUESTION TWO

One of the methods used in price level accounting is Current Purchasing Power. As the chief accountant you are giving a presentation to your shareholders on this subject. In your presentation;

(a) Describe the current purchasing power technique. (2 marks)
(b) Assuming a house was bought in 1985 for Ksh 80,000, when the price index was 150, calculate the value of the house in 2002 with a current price index of 300. (6 marks)
(c) Explain the weakness of the purchasing power technique. (2 marks)

QUESTION THREE

Accountants in corporations dealing in long term contacts have to come up with a way to account for the costs and revenues arising from these contracts.

Required:

(a) Explain the Percentage of Completion method. (2 marks)
(b) Illustrate the calculation of the costs and revenues to be recorded using this method. (5 marks)
(c) Highlight the complications that might arise in using this method. (3 marks)

QUESTION FOUR

It is unfortunate that ABC Ltd has becomes insolvent as of 31st March 2021, the chief accountant has to prepare the statements of accounts for closure. The most important statement is the Statement of Affairs. The books at the time showed the following;

Stock in trade	18,000
Sundry creditors	13,500
Debtors	15,000
Furniture & Fittings	17,500
Outstanding Salaries	2,200
Cash at bank	12,500

Required:

(a) Explain the actions the owners may have committed leading to insolvency. (4 marks)

(b) Prepare a statement of affairs for ABC Ltd as at 31st March 2021. (6 marks)

QUESTION FIVE

During the financial year ended 30th June 2019 Isuzu motors declared a six (6) for four (4) bonus issue to its shareholders. An extract of its statement of financial position prior to issuance of bonus shares was as follows:

	Ksh
Ordinary Share Capital (4,000,000shares of Sh 1.00 each)	4,000,000
Share Premium Account	2,000,000
Revaluation Reserve	3,000,000
Retained Profits	10,000,000
	19,000,000

Required:

(a) Journalize the entries required to account for the above transactions. (4 marks)

(b) Prepare an extract of the balance sheet after bonus issue. (6 marks)

QUESTION SIX

On April 1, 2002, Mooring manufacturing purchased a machine for use in its operations by paying Sh120,000 cash and signing an Sh1,300,000 (face amount) non-interest-bearing note due in one year (on March 31, 2003). The going rate of interest for this type of note was 14% per year. The company uses straight line depreciation. The accounting period ends on December 31. Assume a five-year life for the machine and 10% residual value.

Required:

Show journal entries for the machine and note on;

(a) April 1, 2002 (3 marks)

(b) December 31, 2002 (3 marks)

(c) March 31, 2003. (4 marks)