# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**GABA CAMPUS – ELDORET**

**MAIN EXAMINATION**

**SEPTEMBER – DECEMBER 2021 TRIMESTER**

**SCHOOL OF BUSINESS**

**BACHELOR OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**CAC 412: SPECIALIZED ACCOUNTING**

| | |
|---|---|
| **Date:** December 2021 | **Duration:** 2 Hours |
| **Instructions:** Answer Question **ONE** and any other **TWO** Questions | |

**QUESTION ONE**

KK Ltd sells their products in a container which cost Kshs 50 each. They are charge out to customers at Kshs 100 each and credited back at Kshs 75 each if return in good condition and within three months. At the end of the year all the containers owed by the company whether with customers or in the company premises are valued at Kshs 25 for accounting purposes

On 1Jan 2020 the Company owed 24,000 containers in the factory and 30,000 containers which had been in the hands of customers for less than three months. During the year 40,000 containers were purchased 30,000 were return within specified period and 2000 were kept by customers for a period of more than three months.800 containers were sold at Kshs 20 each. During the year 300 containers were scraped and when the stocks were taken at the year-end there were a deficiency of 900 containers.

On 31st Dec 2020 the company owed 38,000 containers in the factory and 32,000 containers with the customers for a period of less than three months

**Required;**

i) Container stock account **(8 Marks)**

ii) Containers suspense account **(8 Marks)**

b) Mention and explain the steps followed in accounting for royalties and accounting for returnable containers **(7 Marks)**

c) In financial accounting explain the term contra entry **(3 Marks)**

d) Briefly discuss the term hire purchase and what are its conditions

**(4 Marks)**

**QUESTION TWO**

The lessee of gold mine is to pay Kshs 1,000 for each tons of gold extracted. The minimum rent is to be Ksh 4,000,000 per annum .Any short working is to be recouped only two years following that in which occurred. The following table shows gold royalty extraction figures for the year 2016-2020

| **Year** | **Calculation of royalty** |
|---|---|
| 2016 | 3,100 |
| 2017 | 5,600 |
| 2018 | 2,800 |
| 2019 | 4,400 |
| 2020 | 4,500 |
| | |

**Required;**

i) Prepare royalty table for the above transactions **(4 Marks)**

ii) Royalty expenses account in the books of the lessor **(4 Marks)**

iii) Royalty account in the books of the lessee **(4 Marks)**

iv) Short working account **(2 Marks)**

v) Journal entries the record the above transactions **(6 Marks)**

**QUESTION THREE**

a) KK Ltd. forwarded on 1st December, 2011, 50 pressure cookers to Kale of Mumbai to be sold on behalf of KK Ltd. The cost of one pressure cooker was Kshs 1,200 but the invoice price was Kshs 1,600. KK Ltd. incurred Kshs 2,000 on freight and insurance. Kale received the consignment on 14th December, 2011 and accepted a 3 months' draft drawn upon him by KK Ltd. for Kshs 40,000. Kale paid Kshs 1,050 as rent and Kshs 250 as insurance and by 31st March had disposed of 40 pressure cookers at Kshs 1,640 each Kale is entitled to a commission of 5 per cent on sales including a del credere commission of 1%. Kale sold 10 pressure cooker Kshs son credit and was not able to recover sale proceeds of one pressure cooker because of insolvency of the debtor.

**Required;**

i) Prepare all the ledger accounts in the books of KK Ltd; **(10 Marks)**

ii) Pass journal entries for all the transactions relating of consignment.
**(10 Marks)**

**QUESTION FOUR**

i) Mention and explain the main reasons why companies invest in stock or debentures of other companies **(3 Marks)**

ii) Mention and explain the importance of consignment and royalty accounting in a company that deals with returnable containers and mining
**(4 Marks)**

iii) Mention and explain the main purposes of branch accounting

**(3 Marks)**

iv) Mention and explain the main benefits of farm accounting

**(2 Marks)**

On 1 July 2016 the company balance sheet included the following figures for fixed assets

| | Cost accumulated | Depreciation |
|---|---|---|
| | Shs'000 | '0000 |
| Land | 40,000 | nil |
| Building | 44,000 | 16,000 |
| Plant and machinery | 32,000 | 12,000 |
| Motor vehicles | 12,000 | 4,000 |

The company policy is to charged depreciation at the following rates

| | |
|---|---|
| Land | nil |
| Building | 15% on cost |
| Plant and machinery | 15% on cost |
| Motor vehicles | 20% on cost |

A proportionate charge is made in the year of purchase, sale or revaluation of an asset

During the year ended 30june 2017 the following transactions took place

i) On 1 January 2017 the company decided to adopt a policy of revaluing its buildings .A professional value engaged fir this purpose revalued the building to 54 million
ii) On 1 January 2017 a plant which had cost shs 3 million was sold for shs 500,000.Accumulated depreciation on this plant on 30 June 2016 amounted to shs 1.6 million. Anew plant was then purchased at a cost of 4 million
iii) On 1 APRIL 2017 a new motor vehicle was purchased for ksh 300,000.part of the purchase price was settled by exchanging another motor vehicle at agreed value of kshs 120,000.the balance of kshs 180,000 was paid in cash.

The vehicle which was given in part exchange had cost of KSHS 200,000 and had a net book value of KSHS 100,000 as at 30th June 2016

**Required;**

a)The following ledger accounts to record the above transaction

i) Building account **(2 Marks)**

ii) Provision for depreciation account: Building **(2 Marks)**

iii) Plant and machinery account **(1 Mark)**

iv) Provision for depreciation-plant and machinery **(1 Mark)**

v) Motor vehicle account **(1 Mark)**

vi) Provision for depreciation: Motor vehicle account **(1 Mark)**

***END***