



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 412: SPECIALIZED ACCOUNTING

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Clearly explain the meaning of the following words as used in specialized accounting
- i) Joint venture
 - ii) Hire Purchase Agreement
 - iii) Royalty
 - iv) Minimum Rent
 - v) Short working
 - vi) Del Credere Commission
 - vii) Pro forma Invoice
 - viii) Consignment Account
- (8 marks)**
- b) Differentiate between each of the following pairs of terms
- i) Joint Venture Vs Partnership **(3 marks)**
 - ii) Hire Purchase Agreement Vs Credit Sale Contract **(3 marks)**
- c) Feeza Ltd and Deeza Ltd are suppliers of Pizza snacks in East Africa. Both companies have agreed to undertake a Joint Venture to introduce some new products in the market. Feeza will supply the product and bear any expenses incurred while Deeza will sell the products and receive the cash and also cover any relevant expenses. The accruing profits and

losses are to be shared equally. The following transactions occurred in the month of February 2016:

Feeza borne the cost of the product	1, 800,000
Feeza paid wages	200,000
Feeza paid storage costs	160,000
Deeza paid cost of carriage	120,000
Deeza paid selling expenses	320,000
Deeza received cash from sales	3,200,000

Required:

- i) Journal entries to show the accounting necessary to be made in both the books of Feeza and Deeza **(3 marks)**
- ii) Joint venture with Deeza Account **(3 marks)**
- iii) Joint venture with Feeza Account **(3 marks)**
- iv) Memorandum Joint Venture Account **(3 marks)**

Q2. Karen Car Bazaar sold a car to Peter on 1st July 2015. The cash price for the car which Karen Bazaar had bought for \$150,000 was \$ 250,000. Under the Hire purchase Agreement, Peter was required to pay a deposit of \$50,000 upon the signing of the HP Agreement. The balances together with the interest 20% per annum needed to be paid by 12 equal monthly instalments beginning 31st July 2015. The car depreciates at 10% p.a. Using the straight line method.

Required:

- a) Calculate the Hire purchase price **(1 mark)**
- b) Determine the Hire purchase interest suspense **(1 mark)**
- c) Compute the Hire purchase profit as at 31st December 2015 **(1 mark)**
- d) Calculate the unrealized profit as at 31st December 2015 **(1 mark)**
- e) What is the realized profit as at 31st December 2015 **(1 mark)**
- f) In the books of Karen Bazaar show the following:
 - i) HP Debtors account **(2 marks)**
 - ii) HP Sales account **(1 mark)**

- iii) Statement of comprehensive income (extract) as at 31st December 2015
(2 marks)
- iv) Statement of financial position (extract) as at 31st December 2015.
(2 marks)
- g) In the books of Peter, show the following
- i) Car account (2 marks)
 - ii) HP creditor account (HPIS) (2 marks)
 - iii) Hire purchase interest suspense account (1 mark)
 - iv) Provision for depreciation account (1 mark)
 - v) Statement of financial position (extract) as at 31 Dec 2015 (2 marks)
- Q3. The lessee of Gold Mine is to pay \$10 for each ton of Gold extracted. The minimum rent is to be \$ 4,000 per annum. Any payments for short working are recoupable only in the two years following that in which they occurred. The following information shows Gold Royalty extraction figures for the years 2011 – 2015:

Year	Calculation of royalty
2011	3,100
2012	5,600
2013	2,800
2014	4,400
2015	4,500

Required:

- a) Prepare a Royalty Table for the above transactions. (2 marks)
- b) Show how the following would appear in the books of the grantee:
- i) Royalty (expense) account (2 marks)
 - ii) Landlord (liability)account (2 marks)
 - iii) Short working account (2 marks)
 - iv) Operating account for the year ended 31st December 2011, 2012, 2013, 2014 and 2015 (2 marks)
 - v) Statement of comprehensive income (extracts) (1 mark)
 - vi) Statement of financial position (extracts) (1 mark)
- c) In the books of the Royalty receiver, show the following:
- i) Royalty (revenue) account (2 marks)

- ii) Tenant (debtor) account (2 marks)
- iii) Short working account (2 marks)
- iv) Statement of comprehensive income (extracts) for 2011-2015 (1 mark)
- v) Statement of financial position (extracts) (1 mark)

Q4. On 19th August 2015, Mr. Campbell a merchant in Glassgow sent a consignment of 500 cases of goods to Ms. Katta, his agent in Freetown, Sierra Leone. On 26th August, Campbell received Katta's acceptance of a six month's bill of exchange for € 20,000 drawn by Campbell, and immediately discounted it for € 19,500. The goods had cost Campbell €400 per case and carriage, Freight and Insurance was paid by him on 30th September, amounting to €500. During the shipping voyage, two cases on the consignment were completely destroyed by fire, and 31st October 2015, Campbell received the appropriate compensation from the Insurance company. Campbell's accounting year ended 31st December 2015, and Katta sent him an interim account sales made upto that date. It disclosed that 280 cases had been sold for €600 each and landing charges and import duty, €1920 and distribution expenses, € 200 had been paid. Commission at 5 per on sales, plus 2 ½ % Del Credere was charged. On 15th March 2016, Campbell received the final account sales showing that the remainder of the consignment had been sold for €620 per case, distribution charges, €32 had been paid and commission was deducted. A bill of exchange was enclosed for the balance due to Campbell.

Required:

- a) Bills receivable account (1 mark)
- b) Consignment to Katta (Freetown) account (4 marks)
- c) Katta (Freetown) account (3 marks)
- d) Interim account sales (3 marks)
- e) Extract from the final account sales (3 marks)
- f) Further assume that Katta sold 150 cases on credit in November 2015 and 40 cases on credit in December. The landing charges and import duty were paid on 31st August 2015, and the distribution expenses on 29th December 2015. During the year 2016, 200 cases were sold on credit in February and the distribution expenses were paid on 10th March 2016.

Required:

In the books of Katta (consignee) show how the “Campbell Glasgow – UK Account” would appear as well as the “commission” account. **(6 marks)**

END