



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION WITH IT (ACCOUNTING OPTION)
4TH YEAR 1ST SEMESTER 2022/2023 ACADEMIC YEAR
MAIN CAMPUS REGULAR

COURSE CODE: BAB 1405

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING 1

EXAM VENUE:

DATE: 14/12/2022

SESSION: 9.00-11.00AM

TIME: 2 HOURS.

INSTRUCTIONS

- a) Answer QUESTION ONE and any other TWO questions**
- b) Show ALL your workings and be as NEAT as possible**
- c) Candidates are advised not to write on the question paper**
- d) Marks allocated to each question are shown at the end of the question.**

QUESTION ONE

- a) B Kariuki & Co of Nairobi consigned on 15th March 2022, 45 cases of glassware (cost price = Sh.41,235) to Ochieng and Co for sale at a commission of 5% of gross sales proceeds. The consignor paid freight and carriage amounting to Sh.539.
- i) The goods arrived at Kisumu on 20th March 2022, and Ochieng and Co. paid railway clearing charges Sh235, sundry charges sh59, Carriage sh102, and godown charges Sh90.
- ii) The goods were sold by Ochieng and Co. as:
15 cases at Sh1,003 per case,
22 cases at Sh1,050 per case, and
The remainder at Sh10,000 (total value)
- iii) On 21st June 2022, Ochieng and Co sent a draft for Sh10,000 to B. Kariuki & Co. on account.
- iv) On 1st July 2022, Ochieng and Co forwarded an account sale together with a bill of exchange for the balance.

Required: Prepare the necessary accounts to record the above transactions in the books of both parties.(16 marks)

- b) You have been the external auditor of MAERSK LTD, a transportation company that hires vehicles to different companies for the past TWO years. After removal from office, you have been elected the chair of the audit committee of the Energy and Petroleum Regulatory Authority, Kenya, a state owned organization in a glamorous swearing-in ceremony.

Required:

Discuss how you would execute your stewardship in the first year of your tenure. (4 marks)

- c) Write short notes on the following;
- i) Incomplete consignment (2 marks)
- ii) Endorsement of a bill of exchange (2 marks)
- iii) Noting of a bill. (2 marks)
- d) A lot of expenses are incurred and paid for departments in a business as a whole without a clear distinction as to which department such expenditure has been incurred.The analysis & apportionment of such expenditure is therefore an arbitrary one. In light of this statement, discuss FOUR guidelines often used to apportion overhead expenditure (4 marks)

QUESTION TWO.

The following is the statement of financial position of Muli & Tolya, who are equal partners in a wholesale business on 4 May 2019. The following is the statement of financial position of Muli & Tolya, who are equal partners in a wholesale business on 4 May 2019.

Balance sheet on 4 May 2019			
Non current assets	shssshs.	Net	
Motor vehicles			320,000
	Furniture	250,000	
			<u>570,000</u>
Current assets			
Stock	1,140,000		
Debtors			
690,000			
Bank		<u>390,000</u>	
			2,220,000
Less current liabilities			
creditors			
640,000			
Accruals	<u>20,000</u>	<u>(660,000)</u>	<u>1,560,000</u>
			<u>2,130,000</u>
Financed by:			
Capital 4.5.2019			2,130,000

On this date, their business was taken over by Muto ltd. On the following terms:

- I. All assets except cash at bank, and all liabilities except outstanding expenses are to be taken over by the company.
- II. Goodwill was revalued at sh. 500000
- III. The assets to be taken over were revalued as follows:

	shs
Motor vehicles	300000

Furniture	100000
Stock	900000
debtors	600000

- IV. Creditors were valued at their book value
- V. The purchase price was to be satisfied by issue of 10,000 ordinary shares of shs. 100 at 20% premium as fully paid and the balance received to be in cash.
- VI. In addition to issuing shares to partners, the company offered 7000 of shs. 100 ordinary shares at 20% premium for public subscription. All shares were taken up and paid in full.
- VII. The company incurred preliminary expenses of shs 100000 which was written off against the share premium.

Required;

- i. Computation of the purchase price
- ii. Show the following in the books of the company
 - a. Journal entries
 - b. The company's opening balance sheet (20 marks)

QUESTION THREE

- a) Explain the Rule in Garner Vs Murray in relation to dissolution of a partnership (4 marks)
- b) A, B and C are in partnership sharing profits and losses in the ratios 5:3:2. Their statement of financial position as at 31 December 2021 is as follows;

Liabilities	sh"000"	Assets	sh"000"
Capital		Plant & machinery	75,000
A	75,000	Land & buildings	80,000
B	45,000	Stock	20,000
C	30,000	Debtors	47,000
Creditors			
C's Loan	12,000		
	222,000		222,000

On the same date, they decided to dissolve the partnership and to repay the amounts due to partners as and when the assets were realized as follows;

I Realization shs 45,000,000

II Realization shs. 100,000,000

III Realization shs. 60,000,000

Required: Dissolve the partnership and prepare a statement showing how the distribution should be made using the Maximum Loss method. (12 marks)

C) Accounting statements are not sufficiently accurate to be truthful and they are not sufficiently truthful to be accurate. Hence, they are neither accurate nor truthful.

Critically comment on the above statement.

(4 marks)

QUESTION FOUR

a) KuTeLeZa partnership has a fair value of its net identifiable assets at sh600,000. The firm makes an average net profit of sh.80000 p.a. then the normal average rate of return in the industry is 14% p.a. Determine the goodwill. (2 marks)

b) Nugness is a proprietor with his business divided into two departments. Department A and B for Local sales and Exports respectively. The following balances have been extracted from his nominal ledger at 31 March 2022.

Details		Shs
	Department	
Sales	A	3,000,000
	Department	
	B	1,000,000
Stock 1 April	Department	
2015	A	31,000
	Department	
	B	26,000
purchases	Department	
	A	1,150,000
	Department	
	B	960,000
Wages of sales	Department	
assistants	A	112,000
	Department	
	B	60,000
Delivery		
expenses		12,000
General office		
salaries		56,000
Rates		10,000
Fire insurance		
- Building		5,000

lighting and air conditioning	11,600
Repairs to premises	3,500
Internal telephone	2,500
Cleaning	2,700
Accounting and audit charges	13,000
General office expenses	4,700

Additional Information

Stock as at 31 March 2022 were valued at sh. 25000 and sh. 14000 for Departments A and B respectively.

The proportion of the total floor area occupied by each department was 4/6 and 2/6 for the departments A and B respectively.

The expense apportionment is made using the following methods:

Floor area	Turnover
Rates	General office salaries
Fire insurance	Accountancy
Repairs	General office expenses
Lights and air conditioning	

Required: Income statement for the year ended 31 March 2022. (16 marks).

b) Under what circumstances may the following accounts and record systems be used in departmental accounting?

i) Columnar systems. (2 marks)

ii) Separate accounts and records. (2 marks)

QUESTION FIVE

Ngozi Ltd. commenced business on 1 January 2021, at a head office in Kisumu and at one branch in Narok.

Purchases were made exclusively by the head office where all goods were processed before sale and there was no loss or wastage in processing.

Only processed goods received from head office were handled by the branch and these were charged thereto at processed cost plus 10%.

All sales whether by head office or the branch were at a uniform gross profit of 25% on processed cost.

The following trial balance was extracted on 31 Dec 2021 from the books before adjusting any of the matters referred below.

	Head office		Branch	
	sh “000”	sh“000”	sh“000”	sh“000”
Ngozi - Capital		155,000		
Drawings	27,500			
Purchases	984,750			
Cost of processing	25,250			
Sales		640,000		410,000
Goods sent to / received by branch		462,000	440,000	
Selling & general expenses	94,500		10,600	
Debtors / creditors	154,800	300,700	56,800	5,400
Head office / branch - current accounts	194,900			130,750
Balance at bank	76,000		38,750	
	1,557,700	1,557,700	546,150	546,150

You further ascertain that;

- a) Goods charged by head office to the branch in December 2021 at sh. 22,000 were not received or recorded by the branch until January 2022, and a remittance of sh 42,150 from the branch to head office in December 2021, was not received or recorded at the head office until January 2022. Any necessary adjustments in respect of these items are to be made in the head office accounts.
- b) Stock taking at the branch disclosed a shortage of goods of a selling value of sh. 10,000. There was no shortage or surplus at the head office.
- c) The cost of the stock of unprocessed goods at head office on 31 December 2021 was sh 50,000.

For the purpose of the separate trading account at the head office, stocks are to be valued at cost. In the case of the separate accounts of the branch, stocks are to be valued at the price charged by the head office. Any necessary adjustments are to be made in the head office profit and loss account.

Required: Prepare in columnar form for the head office, the branch and combined business as a whole;

- i. Trading profit and loss accounts for the year ended 31 Dec 2021. (10 marks)
- ii. Balance sheet as on that date. (10 marks)