



**JARAMOGI OGINGA ODINGA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY
BACHELOR OF BUSINESS ADMINISTRATION with INFORMATION
TECHNOLOGY (BBA with IT) (REGULAR)
MAIN CAMPUS
END OF FIRST SEMESTER FOURTH YEAR UNIVERSITY
EXAMINATIONS 2013/2014**

ABA 403: ADVANCED FINANCIAL ACCOUNTING

ANSWER QUESTION ONE AND ANY OTHER TWO

2 HOURS

QUESTION ONE

QUESTION ONE

Mwalu Traders Ltd. sells most of its goods through consignees. One of the consignees is Bali Enterprises Ltd. who operates in Mombasa. Bali Enterprises Ltd. is entitled to a commission of 5% on sales.

Given below are the transactions carried out between Mwalu Traders Ltd. and Bali Enterprises Ltd. for the three months ended 31 October 2002.

- August - A consignment of 500 bicycles each costing Sh.4,000 was sent to Bali Enterprises Ltd. Mwalu Traders Ltd. paid packing costs Sh.80,000, freight Sh.100,000 and insurance Sh.40,000. Bali Enterprises Ltd. paid carriage-in costs of Sh.18,000 from the railway station to the trading premises. Bali Enterprises Ltd. also paid Sh.12,000 with respect to offloading the bicycles.
- September - Bali Enterprises Ltd. sold 300 bicycles at Sh.6,000 each and paid carriage out-costs of Sh.30,000. In order to sell the remaining 200 bicycles, they were fitted with head lamps at a total cost of Sh.50,000, the amount being paid by Bali Enterprises Ltd. Bali Enterprises Ltd. paid storage costs of Sh.18,000 and advertisement costs of Sh.20,000.
- October - Bali Enterprises Ltd. sold 160 bicycles at Sh.6,500 each. Bali Enterprises Ltd. sent account sales to Mwalu Traders Ltd. accompanied by a cheque for Sh.2,150,000 after deducting its commission and payments on behalf of the consignor, the balance remaining as a debt due to Mwalu Traders Ltd. Mwalu Traders Ltd. prepares separate trading and profit and loss accounts for consignment sales made through each consignee.

Required:

- (a) In the books of Mwalu Traders Ltd:
- (i) Consignment out account. (6 marks)
- (ii) Trading and profit and loss account for the three months ended 31 October 2002. (7 marks)

(b) Mwalu Traders Ltd.'s account in the books of Bali Enterprises Ltd. (7 marks)

C)

Opening balances 1st January 2009

Kes

Branch stock at cost to head office	63,000
Branch debtor's	27,100
Branch bank	18,200

Transaction at branch during year 2009

▪ Goods transferred from head office to branch	129,000
▪ Goods returned from branch to head office at cost	2,400
▪ Cash sales paid into bank	25,200
▪ Credit sales	162,400
▪ Goods returned to branch by credit customers	600
▪ Cheque received from credit customers	170,100
▪ Discount allowed to credit customers	1,500
▪ Bad debts	300
▪ Cash transferred from branch bank a/c to head office bank a/c	173,900
▪ Rent and rates	2,200
▪ Wages	800
▪ General expenses	700
▪ Branch stock balance carried down at cost to head	48,000

Required

Prepare the necessary a/c in the head office books for the branch (10 Marks) (Total: 30 marks)

QUESTION TWO

A limited set up a branch in Buruburu, Nairobi, on 1st January 2002 to expand its volume of business. The accounts for the branch are maintained in the HO Ledger. Goods sent to the branch are invoiced to the branch at selling price, which is HO cost plus 33 1/3% of O cost.

By 31st December 2002, goods with a selling price of Shs 4m had been sent to the branch; goods with a selling price of Shs 200,000 were unsuitable for sale in this branch and were returned to the head office. In the year cash sales amounted to Shs. 2,800,000 and credit sales amounted to Shs 600,000 and closing stock on 31 December 2002 was (at selling price) Shs 400,000.

The Head Office and branch expenses are Shs 2,200,000 and Shs 810,000 for the year to 31 December 2002 respectively. For simplicity, these expenses have not been analyzed into their constituent components; they are posted in their total amounts in a columnar Expense Account.

Required.

- Branch stock account (4 Marks)
- Branch adjustment account (4 marks)
- Goods sent to branch (4 marks)
- Expense accounts. (4 marks)
- Assume that the following information relates to the head office:

Shs 000

Opening stock at HO	1,000
Closing stock at HO	550
Purchases made by HO	10,500
Sales made by HO	10,800

Required

Overall trading and Profit and Loss Account. (4 marks)

QUESTION THREE

Amis, Lodge and Pym were in partnership sharing profits and losses in the ratio 5:3:2. The following trial balance has been extracted from their books of account as at 31st March 19-8:

	£	£
Bank interest received		750
Capital accounts (as at 1 April 19-7)		
Amis		80,000
Lodge		15,000
Pym		5,000
Carriage inwards	4,000	
Carriage outwards	12,000	
Cash at Bank	4,900	
<i>Current accounts</i>		
Amis	1,000	
Lodge	500	
Pym	400	
Discounts allowed	10,000	
Discounts received		4,530
Drawings:		
Amis	25,000	
Lodge	22,000	
Pym	15,000	
Motor vehicles		
at cost	80,000	
Accumulated depreciation (at 1 April 19-7)		20,000
Office expenses	30,400	
Plant and machinery		
At cost	100,000	
Accumulated depreciation (at 1 April 19-7)		36,600
Provision for bad debts		
(at 1 April 19-7)		420
Purchases	225,000	
Rent, rates, heat and light	8,800	
Sales		404,500

Inventory (at 1 April 19-7)	30,000	
Trade payables		16,500
Trade receivables	<u>14,300</u>	
	<u>£583,300</u>	<u>£583,300</u>

Additional information:

- Inventory as at 31 March 19-8 was valued at £5,000;
- Depreciation is to be charged as follows:
 - Motor vehicles- 25% on the reduced balance
 - Plant and machinery -20% on the original cost

There were no purchases or sales of property, plant and equipment during the year to 31 March 19-8.

- The provision for bad and doubtful debts is to be maintained at a level equivalent to 5% of the total trade debtors as at 31 March 19-8
- An office expense of £405 owed at 31st March 19-8, and some rent amounting to £1,500 had been paid in advance as at that date. These items had not been included in the list of balances shown in the trial balance.
- Interest on drawings and on the debit balance on each partner's current account is to be charged as follows:

	£
Amis	1,000
Lodge	900
Pym	720

- According to the partnership agreement, Pym is allowed a salary of £13,000 per annum. This amount owed to Pym for the year to 31 March 19-8, and needs to be accounted for.
- The partnership agreement also allows each partner interest on his capital account at a rate of 10% per annum. There were no movements on the respective partners accounts during the year to 31 March 19-8, and the interest had not been credited to them about that date.
Note: The information given above is sufficient to answer part a) i) and ii) of the question, and notes 8) and 9) below are pertinent to requirements b) i) and ii) of the question.
- On 1 April 19-8 Fowles Limited agreed to purchase the business on the following terms:
 - Amis to purchase one of the partnership's motor vehicles at an agreed value of £30,000;
 - The company agreed to purchase the plant and machinery at a value of £ 35,000 and the stock at a value of £ 38,500;
 - The partners to settle the trade payables; the total amount agreed with the creditors being £16,000;
 - The trade receivables were not to be taken over by the company, the partners receiving cheques on 1 April 19-8 amounting to £12,985 in total from the trade debtors in settlement of the outstanding debts;
 - The partners paid the outstanding office expenses on 1 April 19-8, and the landlord returned the rent paid in advance by cheque on the same day;
 - As consideration for the sale of the partnership, the partners were to be paid £63,500 in cash by Fowles Limited, and to receive 75,000 in £1 ordinary shares in the company, the shares to be apportioned equally amongst the partners;
- Assume that all the matters relating to the dissolution of the partnership and its sale to the company took place on 1 April 19-8.

Required

a) Prepare:

- i. Amis, Lodges and Pym's trading, profit and loss appropriations account for the year to 31 March 19-8
 - ii. Ami's, Lodge's and Pym's current accounts (In Columna format) for the year to 31 March 19-8 (the final balance on each account is to be then transferred to each partner's respective capital account
- And

b) Compile the following accounts:

- i. The partnership realization account for the period up to and including 1 April 19-8;
 - ii. The partner's bank account for the period up to and including 1 April 19-8;
- and
- iii. The partner's Capital accounts (in column format) for the period up to and including 1 April 19-8. (20 marks)

QUESTION FOUR

- (a) Explain the advantages of maintaining control accounts. (6 marks)
- (b) The following balances were extracted from the books of Katee Ltd. for the month of April 2005:

	Sh.'000
Debit balances (1 April 2005): Sales ledger	1,428,000
Purchases ledger	10,500
Credit balances (1 April 2005): Sales ledger	40,500
Purchases ledger	553,800
Discounts received	142,500
Discounts allowed	209,700
Purchase (including cash purchases of Sh.152,000)	1,334,000
Cash sales	618,000
Credit sales	2,068,200
Credit notes issued to customers for returned goods	75,000
Sales ledger debit balances off-set against purchases ledger	36,900
Payment to creditors	1,159,200
Interest charged by creditors on overdue accounts	69,000
Receipt from customers	1,578,000
Bad debts written off	37,200
Customer's unpaid cheques	26,100
Interest charged to customers on overdue accounts	96,100
Debt collection expenses charged to debtors	10,800
Credit notes received from suppliers	26,700
Balances as at 30 April 2005: Purchases ledger (debt)	14,400
Sales ledger (credit)	50,700

Required:

- (i) Sales ledger control account for the month ended 30 April 2005. (7 marks)
- (ii) Purchases ledger control account for the month ended 30 April 2005. (7 marks)

(Total: 20 marks)

QUESTION FIVE

Kamau and Kimani are partners sharing profits and losses in the ratio 3:2 respectively. The partnership agreement provides for Kimani to receive a salary of Sh.4,000,000 per annum, and interest on capitals for both partners at 5% per annum. The partnership balance sheet as at 31 December 1998 was as follows:

	Sh. '000'	Sh. '000'		Sh. '000'	Sh. '000'
Capital accounts			Premises		
Kamau	16,000		Less depreciation		20,800
Kimani	<u>10,000</u>	26,000	Equipment at cost	8,000	
			Depreciation	<u>(4,800)</u>	<u>3,200</u>
					24,000
Current accounts					
Kamau	3,200				
Kimani	<u>(300)</u>	2,900	Stock	5,600	
			Debtors	2,200	
Creditors accruals		<u>3,300</u>	Cash	<u>400</u>	<u>8,200</u>
		<u>32,200</u>			<u>32,200</u>

On 1 April 1999 Kimata was admitted to the partnership. He had been a salaried employee, earning Sh.8, 000,000 per annum. The terms of his admission to the partnership were as follows:

1. Kimata should introduce Sh. 12,000,000 in cash as capital into the business.
2. Goodwill should be valued at Sh.14, 000,000 for the purpose of his admission. It was agreed that goodwill should not be included in the balance sheet of the new partnership.
3. Kimata should receive a salary as a partner of Sh.6, 000,000 per annum. Kimani's salary should be raised to Sh.6, 000,000.
4. Interest on capital should be raised from 5% to 6% per annum and calculated on the capital accounts after the elimination of goodwill.
5. The new profit sharing ratio for Kamau, Kimani and Kimata should be 4:2:1 respectively.

In preparing the draft financial statements for the year ended 31 December 1999, the partnership accountant, Otieno, calculated that the partnership's profit for the year was Sh.55, 155,000, and that the working capital of the business as at 31 December 1999 was:

	Sh. '000'
Stock	12,555
Debtors	3,500
Cash	8,800
Creditors and accruals	3,480

Profit is assumed to accrue evenly during the year.

Partners cash drawings for the year were Kamau Sh.23,705,000, Kimani Sh.19,525,000 and Kimata Sh.8,250,000.

Required:

- (a) The profit and loss appropriation account for the year ended 31 December 1999. (8 marks)
- (b) The current and capital accounts of the partners for the year ended 31 December 1999. (7 marks)
- (c) Balance Sheet as at 31 December 1999. (5 marks)

(Total: 20 marks)

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ABA 403: ADVANCED FINANCIAL ACCOUNTING I

OBJECTIVE:

To enhance the candidate's knowledge in the preparation of financial statements

SPECIFIC OBJECTIVES:

A candidate who passes this subject should be able to:

- Prepare financial statements for publication
- Apply accounting techniques to special transactions and entities
- Correctly account for assets and liabilities

COURSE OUTLINE, MAY TO AUGUST 2014 SEMESTER

SYLLABUS	TOPIC/LECTURE CONTENT	WEEK
BILLS OF EXCHANGE	<ul style="list-style-type: none"> - Parties to a bill - Entries in the books of accounts - Bills payable and receivable - Dishonouring a bill - Noting charges - Retiring a bill - Ledger accounts - 	1-2
CONSIGNMENTS	<ul style="list-style-type: none"> - Important terms - Features of consignment - Consignors books and consignees - Account of sales - 	3-4
DEPARTMENTAL ACCOUNTS	<ul style="list-style-type: none"> - Allocation and apportionment of expenses - Expenses requiring adjustments - Trading profit and loss accounts - 	5-6
PARTNERSHIP ACCOUNTS	<ul style="list-style-type: none"> o Partnerships accounts: o equity changes in partnerships, o Amalgamation of a partnership o dissolution of partnerships, - conversion of partnerships to limited liability companies 	7-10
BRANCH ACCOUNTS	<ul style="list-style-type: none"> - Accounting for selling agencies - Accounting for independent branches - Foreign currency transactions - Accounting for foreign branches 	11-14

RECOMMENDED TEXT BOOKS:

	TITLE	AUTHOR(S)	PUBLISHER	EDITION
1.	Corporate Financial Accounting and Reporting	Tim Sutton		Second edition
2.	Advanced Accountancy II	S.N. Maheshwari		Ninth edition
3.	Spicer and Pegler's – Book-keeping and Accounts	Paul Gee		Latest edition
4.	Advanced Accounts Volume II	M. C. Shukla T. S. Grewal S. C. Gupta	S. Chand and Co.	Latest edition
5.	Advanced Accounting – Theory and Practice	David K. Wang'ombe	Focus Publications Limited	Latest edition
6.	Modern Advanced Accounting	E. John Larsen	McGraw Hill	Ninth edition

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