



**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 1<sup>st</sup> 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 1<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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><b>£583,300</b></u> | <u><b>£583,300</b></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 31<sup>st</sup> 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:

|  | <b>Sh.'000</b> |
|--|----------------|
| 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'     |
|---------------------------|---------------|---------------|-------------------|----------------|---------------|
| <b>Capital accounts</b>   |               |               | 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        |
| <b>Current accounts</b>   |               |               |                   |                |               |
| Kamau                     | 3,200         |               |                   |                |               |
| Kimani                    | <u>(300)</u>  | 2,900         | Stock             | 5,600          |               |
|                           |               |               | Debtors           | 2,200          |               |
| <b>Creditors accruals</b> |               | <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**

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

**RECOMMENDED TEXT BOOKS:**

|    | <b>TITLE</b>                                    | <b>AUTHOR(S)</b>                            | <b>PUBLISHER</b>           | <b>EDITION</b> |
|----|---|---|----------------------------|----------------|
| 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<br>T. S. Grewal<br>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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