



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE  
AND TECHNOLOGY (JOOUST)**

**1<sup>ST</sup> YEAR 2<sup>ND</sup> SEMESTER EXAMINATION FOR THE DEGREE  
OF BACHELOR OF EDUCATION AND BACHELOR OF  
BUSINESS ADMINISTRATION WITH IT**

**(REGULAR-MAIN)**

**COURSE CODE: ABA 109**

**COURSE TITLE: INTRODUCTION TO ACCOUNTING II**

**DATE:**

**TIME:**

**DURATION:**

**INSTRUCTIONS**

- 1. This paper contains FIVE(5) questions**
- 2. Answer QUESTION 1 and ANY other TWO questions.**
- 3. Write all answers in the booklet provided.**

### QUESTION ONE (COMPULSORY)

- a) (i) State and briefly explain any two desirable qualitative characteristics of good accounting information. (4 marks)

(ii) Explain the meaning of the following accounting concepts:

- I. Accrual concept
  - II. Consistency concept (4 marks)
- b) The profit reported by a business for the past four years ending 2013 is as follows:

Year	Profit Kshs
2010	720,000
2011	960,000
2012	1,080,000
2013	840,000

**Required:**

Determine goodwill using the average profit method (4 marks)

- c) State any two differences between a consignment and a sale. (4 marks)
- d) Onyango Lumumba & Patrick's Advocates keeps all moneys of their clients in a separate bank account which is maintained for that purpose. At the end of each month they make any necessary transfers from "clients' accounts to office account". On 1 July 2013 the balance at bank in the office account was Kshs 750,000 and the balance on clients' account was Kshs 1,055,000 made up as follows:

Client	Kshs
Askali Kamau	50,000
Karol Trust	115,000
Njega & Co.	350,000
Jacob & Co. Ltd	<u>540,000</u>
	<b><u>1,055,000</u></b>

The receipts and payments for the month of July were as follows:

(All receipts were banked daily)

- |      |   |   |
|------|---|---|
| July | 2 | Paid Kshs 5,000 insurance premium for Askali Kamau                            |
|      | 3 | Paid Kshs 9,000 for repairs to premises rented by Jedi Auma under Karol Trust |
|      | 4 | Paid Kshs 9,000 for advertisements for Jacobs & Co. Ltd.                      |

- 7 Authorized to draw Kshs 35,000 on account of costs for Karol Trust
- 9 Authorized to draw Kshs 120,00 on account of Jacobs & Co. Ltd.
- 14 Received from Jedi Auma Kshs 44,000 under Karol Trust.
- 16 At the request of Njoroge & Co., paid Kshs 10,000 Registration fees
- 30 Paid salaries Kshs 240,000 and drew petty cash Kshs 20,000

**Required:**

Write up the cash book and clients' ledger accounts. (10 marks)

**QUESTION TWO**

- a) The average reported profit reported by a business with a capital employed of **Kshs 1,800,000** was **Kshs 240,000**. If the normal rate of return is **10%**, calculate goodwill assuming a two-year purchase. (2 marks)
- b) Lavender Achieng' and Nancy Nyabuto own a grocery shop. Their first financial year ended on 31<sup>st</sup> December 2013. The following balances were taken from the books on that date:

	<b>Achieng'</b>	<b>Nyabuto</b>
	<b>Kshs</b>	<b>Kshs</b>
Capital a/c	60,000	48,000
Current a/c	54,000 Cr	1,400 Dr
Partnership salaries	9,000	6,000
Drawings	12,000	13,400
Interest on drawings	840	650
Interest on capital	6,000	4,800
Loan interest	-	3,400

The firm's net profit for the year was **Kshs 32,840**. Interest on capital is to be allowed at **10%** per year. Profits and losses are to be shared according to capital contribution ratio.

**Required:**

From the information above prepare the firm's appropriation account and the partner's current account. (6 marks)

- c) On 1<sup>st</sup> September 2013, Kipng'etich of Kericho consigned to Franklin of London 50 bales of tea merchandise costing him **Kshs 6,000,000**. Kipng'etich also incurred expenses amounting **Kshs 30,000** relating to carriage of goods to the port. Franklin paid freight at

€17.5 per bale, dock dues and landing charges €450, marine insurance €600, brokerage was 2% of sales and commission  $2\frac{1}{2}\%$ . On 30<sup>th</sup> December 2013, Franklin completed sales of the whole consignment realizing €75,000. He settled the net proceeds by a bill of exchange at three months which was duly met on maturity.(the prevailing exchange rate was €1.0 = Kshs 120)

**Required:**

Write the ledger accounts in the books of Kipng'etich to record the above transactions.  
(12 marks)

**QUESTION THREE**

The following is the income and expenditure account for Uzima Charitable Hospital for the year ended 31 July 2013:

<b>Expenditure</b>	<b>Kshs</b>	<b>Income</b>	<b>Kshs</b>
Medicine used	5,996,000	Subscriptions	11,200,000
Honoraria to doctors	2,400,000	Donations	1,900,000
Salaries	5,500,000	Income from annual walk	2,200,000
Electricity and water	95,000	Income from film show	2,290,000
Rent	1,200,000		
Depreciation:			
Furniture and fixtures	420,000		
Equipment	650,000		
Film show expenses	56,000		
Annual walk expenses	100,000		
Printing expenses	220,000		
Surplus	<u>953,000</u>		
	<b><u>17,590,000</u></b>		<b><u>17,590,000</u></b>

**Additional information:**

	<b>1<sup>st</sup> August 2012</b>	<b>31<sup>st</sup> July 2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Subscriptions due	24,000	32,000
Subscriptions received in advance	12,800	20,000
Electricity and water bills	18,400	23,000
Furniture and fixtures at net book value	4,200,000	3,780,000
Equipment at net book value	2,320,000	2,780,000
Land	-	2,000,000
Cash balance	68,000	32,000
Bank balance	1,800,000	?
Stock of medicine	1,564,000	1,950,000

**Required:**

- a) Subscriptions account for the year ended 31<sup>st</sup> July 2013. (4 marks)
- b) Receipts and payments accounts for the year ended 31<sup>st</sup> July 2013. (10 marks)
- c) Statement of financial position as at 31<sup>st</sup> July 2013. (6 marks)

**QUESTION FOUR**

The following balances were extracted from the books of Kasaya Limited as at 30<sup>th</sup> September 2010.

	<b>Kshs '000'</b>
Land and buildings (net book value)	25,000
Plant and machinery (net book value)	8,000
Motor vehicles (net book value)	2,000
Inventory	6,000
Ordinary share capital (Kshs 50 par value)	10,000
10% preference share capital (Kshs 100 par value)	9,000
10% debentures	8,000
Corporate tax	500
Interim ordinary dividends paid	2,000
Other operating expenses	1,550
Distribution costs	6,000
Administrative expenses	13,000
Accounts payable	19,000
Other operating incomes	4,000
Gross profit	25,000
Debenture interest paid	400
Preference dividends paid	450
Accounts receivables	20,000
Bank	4,100
Capital redemption reserve	6,000
Share premium	4,000
Revenue reserves (1 October 2009)	3,000

**Additional information:**

1. The balance on the corporate tax account represents an over provision of tax for the previous year. Tax expense for the current year is estimated at Kshs 3.0million.
2. On 15<sup>th</sup> September 2010, the directors of the company proposed to pay the dividends due to the preference shareholders and to also pay a final dividend of Kshs 2.0million to the ordinary shareholders.
3. A building whose value is Kshs 5.0 million is to be revalued to Kshs 9.0 million.

**Required:**

- a) Income Statement for the year ended 30 September 2010. (10 marks)
- b) Statement of financial position as at 30 September 2010. (10 marks)

**QUESTION FIVE**

Mboyamak limited manufactures farm implements. The following list of balances was extracted from the books of accounts of the company as at 31<sup>st</sup> December 2013:

	<b>Kshs</b>
Inventory as at 1 <sup>st</sup> January 2013:	
Raw materials	1,270,000
Work in progress	1,555,000
Finished goods	1,163,000
Purchase of raw materials	4,576,750
Carriage of raw materials	98,000
Direct labour	4,210,400
Office salaries	1,670,950
Rent	260,000
Electricity (office)	221,000
Depreciation expenses:	
Machinery	510,000
Equipment (office)	115,000
Sales	15,931,100
Electricity (factory)	406,000

**Additional information:**

- 1. Inventory as at 31<sup>st</sup> December 2013:

	<b>Kshs</b>
Raw materials	1,445,000
Work in progress	1,230,000
Finished goods	1,442,000

- 2. Rent is to be apportioned between the factory and office in the ratio of 3:1.
- 3. Finished goods are transferred from factory to sales at mark up of 20%.
- 4. The values of opening and closing inventory are given at the transfer price.

**Required:**

- a) Manufacturing account for the year ended 31 December 2013. (10 marks)
- b) Income statement for the year ended 31 December 2013. (10 marks)

## **ABA 109 INTRODUCTION TO ACCOUNTING II**

### **COURSE OUTLINE**

#### **OBJECTIVES**

By the end of this course the learner should be able to:

- Explain the nature and purpose of accounting;
- Explain the users of accounting information and their respective needs;
- Prepare accounts for:
  - Sole proprietorship;
  - Partnership;
  - Limited liability companies;
  - Non-profit making organizations;
- Prepare accounts for professionals such as:
  - Doctors;
  - Solicitors;
  - Accountants etc.
- Prepare accounts for:
  - Manufacturing businesses;
  - Consignment businesses and Final accounts of financial institutions

#### **COURSE CONTENT**

Review of accounting process. Basic final accounts of sole proprietors; partnerships; limited liability companies; non-profit making organizations; accounts of professionals-doctors; solicitors accountants, etc.; manufacturing accounts; consignment accounts. Final accounts of financial institutions.

<b>COURSE EVALUATION: ASSIGNMENT</b>	- 10%
CAT	- 20%
END OF SEMESTER EXAMS	- 70%

**COURSE FACILITATOR: GEORGE AYANGA (0716384372/0735455589)**