

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY
KISUMU LEARNING CENTRE
UNIVERSITY EXAMINATION 2012/2013**

**1ST YEAR 2ND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR IN
BUSINESS ADMINISTRATION**

ABA 109: INTRODUCTION TO FINANCIAL ACCOUNTING II

Duration: 2 hours

Instructions: This paper contains **FIVE** questions.

Answer question 1(**Compulsory**) and any other 2 questions

QUESTION ONE

- a) “The historical cost convention looks backwards but the going concern convention looks forwards.”

Required:

- i.) Explain clearly what is meant by :
the historical cost convention
the going concern concept (5 marks)
 - ii.) Does traditional financial accounting, using the historical cost convention, make the going concern convention unnecessary? Explain. (5 marks)
 - iii.) Which do you think a shareholder is likely to find more useful – a report on the past or an estimate of the future? Why? (5 marks)
- b) The trial balance below has been extracted from the books of J Kimathi; Toy Manufacturer as at 31/12/2007

| J Kimathi | | |
|---|-----------|-----------|
| Trial Balance as at 31st December, 2007(Kshs) | | |
| | Dr | Cr |
| Inventory of Raw Materials 1.1.2007 | 21,000 | |
| Inventory of Finished Goods 1.1.2007 | 38,900 | |
| Work-In-Progress 1.1.2007 | 13,500 | |
| Wages (direct 180,000; factory indirect 145,000) | 325,000 | |
| Royalties | 7,000 | |
| Carriage inwards (raw materials) | 3,500 | |
| Purchase of raw materials | 370,000 | |

| | | |
|---------------------------------|-----------|-----------|
| Machinery (cost 280,000) | 230,000 | |
| Office Equipment (cost 20,000) | 12,000 | |
| General factory expenses | 31,000 | |
| Lighting | 7,500 | |
| Factory Power | 13,700 | |
| Administration Salaries | 44,000 | |
| Sales Administration | 30,000 | |
| Commission on Sales | 11,500 | |
| Rent | 12,000 | |
| Insurance | 4,200 | |
| General Administration Expenses | 13,400 | |
| Bank Charges | 2,300 | |
| Discounts allowed | 4,800 | |
| Carriage outwards | 5,900 | |
| Sales | | 1,000,000 |
| Accounts Receivable | 142,300 | |
| Accounts Payable | | 64,000 |
| Cash at Bank | 16,800 | |
| Cash at Hand | 1,500 | |
| Drawings | 60,000 | |
| Capital as at 1.1.2007 | | 357,800 |
| | 1,421,800 | 1,421,800 |

Additional notes at 31.12.2007:

1. Inventory of raw materials kshs 24,000; inventory of finished goods kshs 40,000; work in progress kshs 15,000.
2. Lighting, rent and insurance are to be apportioned: factory 5/6, administration 1/6
3. Depreciation on machinery and office equipment at 10% p.a. on cost.

Required:-

- i.) Prepare the Manufacturing Account and Income statement for the year ending 31/12/2007 (10 marks)
- ii.) Prepare the Balance Sheet for the same period (5 marks)

QUESTION TWO

- a) Explain what a partnership is and how it differs from a joint venture. Also describe the main features of a partnership agreement. (5 marks)
- b) Kadir and Abdalla are in a partnership sharing profits and losses in the ratio 3:2. The following is their trial balance as at 30th September, 2009.

| | Dr (kshs) | Cr (Kshs) |
|-------------------------------------|--------------|--------------|
| Building Cost (120,000) | 160,000 | |
| Fixture as cost | 8,200 | |
| Provision for depreciation fixtures | | 4,200 |
| Accounts Receivable | 61,400 | |
| Accounts Payable | | 26,590 |
| Cash at Bank | 6,130 | |
| Inventory at 30.9.2009 | 62,740 | |
| Sales | | 363,111 |
| Purchases | 210,000 | |
| Carriage Outwards | 3,410 | |
| Discounts Allowed | 620 | |
| Loan Interest: Maitha | 3,900 | |
| Office Expenses | 4,760 | |
| Salaries and Wages | 57,809 | |
| Bad Debts | 1,632 | |
| Allowance for doubtful debts | | 1,400 |
| Loan from Maitha | | 65,000 |
| Capital :Kadir | | 100,000 |
| :Abdalla | | |
| 75,000 | | |
| Current Accounts :Kadir | | 4,100 |
| :Abdalla | | 1,200 |
| Drawings :Kadir | 31,800 | |
| :Abdalla | 28,200 | |
| | 640,601 | 640,601 |

Additional Notes

1. Inventory 30.9. 2009 Kshs 74, 210
2. Expenses to be accrued: Office expenses kshs 215 /Wages kshs 720
3. Depreciate fixtures 15% on reducing balance basis, buildings kshs 5,000
4. Reduce provision for doubtful debts to kshs 1,250
5. Partnership salary: ksh 30,000 Kadir. Not yet entered.
6. Interest on drawings: Kadir ksh 900; Abdalla ksh 600
7. Interest on capital balances at 5%

Required:

Prepare an income statement and profit and loss appropriation account for the year ending 30.9.2009 and a balance sheet as at that date. (10 marks)

QUESTION THREE

- a) Explain the need for unified financial reporting standards mainly for Africa, Europe, USA and Asia/Pacific. Which today is tasked with reviewing and safe guarding these reporting standards.(5 marks)
- b) Distinguish between the three types of business organizations. Briefly explain their individual advantages and disadvantages to their ownership(5 marks)
- c) Kisumo Manufacturing LTD has an authorized capital of kshs 50,000, 10% preference share of ksh 1 each and 200,000 ordinary shares of 50 cents each. After the preparation of the income statement for 2004, the following balances remained in the ledgers:-

| | Kshs. '000 |
|-------------------------------|------------|
| Share capital, fully paid up: | |
| Preference | 30 |
| Ordinary | 80 |
| Loans note | 20 |
| Share premium account | 4 |
| General reserve | 7 |
| Retained profits (2003) | 3 |
| Net Profit for 2004 | 27 |
| Non-current assets | 50 |
| Accounts payable | 19 |

The directors recommend:

- i.) That kshs 10,000 be transferred to general reserve
- ii.) Payment of the preference dividend
- iii.) An ordinary Dividend of 15%

Required: -Prepare

1. A statement of changes in equity for 2004

2. A balance sheet as at 31/12/2004

QUESTION FOUR

- a) Explain using diagrams the flow of costs and expenses that comprise the manufacturing accounts processes (5 marks)
- b) Webuye Manufacturing Co. has provided you with the following about its operating activities and transactions for the year ended 31/12/2006.

| | Dr (kshs) | Cr (kshs) |
|---|----------------------------|----------------------------|
| Purchase of raw materials | 258,000 | |
| Fuel and Power | 21,000 | |
| Administration salaries | 17,000 | |
| Factory wages | 59,000 | |
| Freight Outwards | 4,000 | |
| Rent and Rates | 21,000 | |
| Sales | | 482,000 |
| Returns Inward | 7,000 | |
| General Office Expenses | 9,000 | |
| Inventory as at 1/1/2006: | | |
| Raw Materials | 21,000 | |
| Work-In-progress | 14,000 | |
| Finished Goods | 23,000 | |
| Sundry Accounts Payable | | 37,000 |
| Capital Account | | 457,000 |
| Freehold Premises | 410,000 | |
| Plant and Machinery | 80,000 | |
| Accounts Receivable | 20,000 | |
| Accumulated depr. – Plant and machinery | | 8,000 |
| Cash at hand | 11,000 | |
| | <u>984,000</u> | <u>984,000</u> |

Make provision for the following:

- a) Inventory as at 31/12/2006
 - Raw materials ksh 25,000
 - Work-In-Process ksh 11,000
 - Finished Goods ksh 26,000
- b) Depreciation of 105 on plant and machinery using the straight line method.
- c) 80% of fuel and power and 75% of rent and rates to be charged to manufacturing
- d) Allowance for doubtful debts, 5% of sundry accounts receivable
- e) Kshs 4,000 unpaid for fuel and power
- f) Rent and rates paid in advance , kshs 5,000
- g) Market value of finished goods, kshs 383,000

Required: - Prepare the following

- i.) A manufacturing account for the period ending 31/12/2006
- ii.) An income statement for the same period
- iii.) And finally a balance sheet statement for the same period (15 marks)

QUESTION FIVE

- a) What are the rates of non-profit making organizations in Kenya? Name at least four of these organizations and their rates and why you think they may be critical to our society and economy. (10 marks)
- b) Draw up Receipts and Payment Account from the cash book of Sigona Golf Club as at 30.6.2009.

| Payment Account | Kshs '000 | |
|----------------------|-----------|-----------|
| Opening balance | | |
| Cash in hand | 100 | |
| Cash in bank | 500 | |
| Receipts: | | |
| Subscriptions | 3,300 | |
| Donations | 400 | |
| Payments: | | |
| Investment Purchased | 1,000 | |
| Rent Paid | 400 | (5 marks) |

- c) Prepare Income and Expenditure Account for Sigona Golf Club for the year ended 30.6.2009 (5 marks)

