



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

**UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION WITH IT (ACCOUNTING OPTION)**

4TH YEAR 1ST SEMESTER 2017/2018 ACADEMIC YEAR

MAIN CAMPUS (EVENING CLASS)

COURSE CODE: ABA 403

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING I

TIME: 2.00 HOURS

DATE: 16TH APRIL, 2019

EXAM SESSION: 3.00 – 5.00PM

INSTRUCTIONS:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions.**
- 2. Show ALL your workings**
- 3. Candidates are advised not to write on the question paper.**
- 4. Marks allocated to each question are shown at the end of the question.**
- 5. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

(a) What are the main reasons for organisations maintaining financial and management accounts? (5 marks)

(b) For each of the following stakeholders, identify the accounting information that will be of interest to them and why? 5 marks

i) Investors.

ii) Lenders.

iii) Employees and their representatives.

iv) Customers.

v) The general public.

(c) Felix and Oketch are in a partnership trading as F&O Supermarket. The following information pertains to the partnership:

List of balances as at 31 December 2017

	Kshs.
Capital: Felix (1 January 2009).....	350 000
Capital: Oketch (1 January 2009).....	250 000
Current account: Felix (1 January 2009) (cr).....	60 000
Current account: Oketch (1 January 2009) (dr).....	40 000
Land and buildings at cost.....	494 000
Vehicles at cost.....	198 000
Accumulated depreciation: Vehicles (1 January 2009).....	42 000
Debtors control.....	145 560
Creditors control.....	106 300
Bank (dr).....	26 582
Fixed deposit: Third National Bank.....	19 000
Drawings: Felix.....	64 800
Drawings: Oketch.....	43 200
Loan to Oketch.....	40 800
Loan from Felix.....	170 000
Allowance for credit losses.....	2 500
Sales.....	650 000
Purchases.....	304 000
Inventory (merchandise) (1 January 2009).....	70 800
Salaries and wages.....	132 960
Water and electricity.....	4 700

Interest expense: Loan from Felix.....	5 400
Settlement discount granted.....	3 800
Interest income: Fixed deposit.....	1 710
Stationery consumed.....	5 000
Insurance on purchases.....	26 208 4 500
on purchases.....	
.... Freight on sales	
.....	

2. Partnership agreement:

The partnership agreement stipulates the following:

- (i) The partners Felix and Oketch share the profits or losses in the ratio of 3:2 respectively.
- (ii) Interest at 10% per annum is allowed on the opening balances of the partners' capital accounts.

Felix is entitled to a 10% commission on sales.

Year-end adjustments:

Inventory on hand at 31 December 2009:	Kshs.(000)
Merchandise	83000

Stationery(purchased is recorded in the stationery consumed account) 850

On 30 September 2017, a delivery vehicle was purchased for Kshs.850,000 cash. All the necessary entries were made in the books.

Depreciation must be provided on vehicles at 10% per annum according to the straight-line method.

The loan from Felix was obtained on 1 September 2015 at 5% interest per annum. The loan will be repaid in five equal annual installments, starting from 31 December 2018. The interest must be paid to Felix annually.

During the financial year Oketch was granted an interest free loan which he agreed to settle in full on 30 June 2018.

The water and electricity account of R400 for December 2017 was received on 10 January 2018.

A debtor owing the business Kshs.50 560 has for the past financial year defaulted on his payments and his account must be written off as irrecoverable. The allowance for credit losses must be adjusted to Kshs.30 200.

During the financial year Kshs 400 000 was paid to Felix as commission on sales. These payments were recorded in the salaries and wages account.

The fixed deposit at National Bank was made on 1 January 2016 for a period of 5 years at 9% interest per annum. The interest is receivable at the end of each borrowing year.

Required:

Prepare the income statement and other comprehensive income of F&O Supermarket for the year ended 31 December 2017. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership (notes and comparative figures are not required). **10 marks**

Prepare the current account of Felix in the general ledger of F&O Supermarket for the year ended 31 December 2017. The income statement for the year need not be appropriated and do not balance the account. Each entry must disclose the correct contra ledger account. **10 marks**

QUESTION TWO

The balance sheet of 2016 and 2017 for Bondo ltd is given below:

Liabilities	000' 2017	000' 2016	Assets	000' 2017	000' 2016
Share capital	100,000	160,000	Fixed Assets at cost	152,000	200,000
R.Earnings	70,250	85,200	Inventory	93,400	89,200
Accum.Dep	60,000	40,000	Debtors	30,800	21,100
12% debentures	50,000	0	Prepayments	3,950	3,000
Creditors	28,000	48,000	Bank	28,100	20,000
Total	308,250	333,300	Total	308,250	333,300

Additional Information:

- 1.Net profit is kshs.27050
- 2.Depreciation charged kshs.10,000.
- 3.Cash dividend declared during the period Kshs.12,000.
- 4.An addition to the building was made during the year at a cost of kshs.78,000 and fully depreciated equipment costing kshs.30,000 was discarded as no salvage being realized.

Prepare a Cash Flow Statement.**20 marks**

QUESTION THREE

As credit manager of ABC Limited, you have been asked by your financial director to assess the feasibility of increasing the credit facility of Doyle and Scott Limited.

You have been given the extracts from their most recent financial accounts below: Income Statement of Doyle and Scott Limited for the year ended 31 December:

2016

2017

2018

	Kshs. '000'	'000'	'000'
Sales	<u>240</u>	<u>360</u>	<u>540</u>
Less COGS	160	270	432
Gross profit	<u>80</u>	<u>90</u>	<u>108</u>
Less:Expenses	56	74	94
Opera. Profit	<u>24</u>	<u>16</u>	<u>14</u>

Statement of Financial Position for Doyle and Scott Limited as at 31 December:

	Kshs. '000'	2016	2017	2018
Non-current assets		60	120	160
Current Assets:				
Inventory		48	50	80
Accounts receivables		52	80	110
Bank		<u>40</u>	<u>20</u>	<u>0</u>
		140	150	190
Current liabilities:				
Accounts payables		40	70	90
Bank		0	0	20
Net current assets		<u>100</u>	<u>80</u>	<u>80</u>
		160	200	240
Financed by:				
Ordinary Shares		100	124	150
Reserves		<u>60</u>	<u>76</u>	<u>90</u>

160

200

240

NB: Opening inventory in 2016 was Kshs.40,000.

Required:

Calculate the following ratios for both of the years 2017 and 2018 (the relevant figures for 2016 have been given in brackets):(15marks)

- i) Gross profit margin (2016: 33%).
- ii) Operating profit margin (2016: 10%).
- iii) Return on capital employed (2016:15%).
- iv) Current ratio (2016: 3.5:1).
- v) Quick ratio/Acid test (2016: 2.3:1).
- vi) Inventory days (2016: 100 days).
- vii) Receivables days (2016: 79 days).
- viii) Payables days (2016: 91 days).

b) Using the ratio calculations which have been supplied for 2016 and your own calculations from part a) for 2017 and 2018, assess whether an increase in the credit facility would be appropriate, giving your reasons for your decision.10marks

QUESTION FOUR

(a)List and explain the three limitations of Double Entry System **5 marks**

(b)Bondo Paper Co.Ltd established in 2017 uses wood remains collected from carpentry workshops to make hard board for construction purposes.In that year the following expenditure were incurred on a factory and other service buildings,bought machinery and installed.

The following information was extracted from the year 1 financial statements.

Kshs.

Land purchased

100,000

Cost of construction of buildings	6,200,000
Labour lines(For welfare of workers)	200,000
New Machinery bought	810,000
Mombasa port charges and import duty	80,000
Transport from Coast	20,000
Insurance while on transit	10,000
Other expenses:	
Wages and salaries (1/3 of which were in respect Of the construction of the manufacturing building)	600,000
Architect's fee	40,000
2 x 5 ton lorries	80,000
Saloon car for company use by Manager	60,000

Required : Calculate all deductions to which the company is entitled under the second schedule.

15 marks

QUESTION FIVE

(a) Compare and contrast the difference between management accounting and financial accounting. **5 mark.**

(b) What is the amount of ending retained earnings in the following case? **5 marks**

Beginning retained earnings = kshs.200,000

Net income = kshs.150,000

Dividends = kshs.60,00

(c) What does it mean to say that dividends are "irrelevant" in a world without taxes or other market frictions? **10 marks**