



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION (BBA With IT) FOR
FIRST YEAR SEMESTER TWO ACADEMIC YEAR 2018/2019
KISUMU CAMPUS – PART-TIME**

COURSE CODE: ABA 109

COURSE TITLE: INTRODUCTION TO ACCOUNTING II

EXAM VENUE:

DATE: 13/08/19

EXAM SESSION: 2.00 – 4.00pm

DURATION: 2 HOURS

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Candidates are advised not to write on the question paper**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**

QUESTION ONE (30 MARKS) - COMPULSORY

- (a) Distinguish between *general insurance* and *life insurance* revenue accounts (3Marks)
- (b) In accounting for professional firms, a firm may make a payment on behalf of the client for which the client should reimburse the firm. This is referred to as *reimbursement from the client*. What are the two main ways to account for reimbursement due from clients?
(4 Marks)
- (c) A cooperative society is a firm owned, controlled, and operated by a group of users for their own benefit. Explain the following miscellaneous expenses relating to cooperative societies accounting:
(i) Administrative costs
(ii) Operating expenses
(iii) Interest expense (3 Marks)
- (d) The following information relates to Octadadd Electronics on December 31, 2015. The company, which uses the calendar year as its annual reporting period, initially records prepaid and unearned items in balance sheet accounts (assets and liabilities, respectively).
1. The company's weekly payroll is Sh.875,000, paid each Friday for a five-day workweek. Assume December 31, 2015, falls on a Monday, but the employees will not be paid their wages until Friday, January 4, 2016.
 2. Eighteen months earlier, on July 1, 2014, the company purchased equipment that cost Sh.2,000,000. Its useful life is predicted to be five years, at which time the equipment is expected to be worthless (zero salvage value).
 3. On October 1, 2015, the company agreed to work on a new housing development. The company is paid Sh.12,000,000 on October 1 in advance of future installation of similar alarm systems in 24 new homes. That amount was credited to the Unearned Services Revenue account. Between October 1 and December 31, work on 20 homes was completed.
 4. On September 1, 2015, the company purchased a 12-month insurance policy for Sh.180,000. The transaction was recorded with an Sh.180,000 debit to Prepaid Insurance.
 5. On December 29, 2015, the company completed a Sh.700,000 service that has not been billed and not recorded as of December 31, 2015.

Required

- (i) Prepare any necessary adjusting entries on December 31, 2015, in relation to transactions and events (1) through (5). (10 Marks)
- (ii) Prepare T-accounts for the accounts affected by adjusting entries, and post the adjusting entries. Determine the adjusted balances for the Unearned Revenue and the Prepaid Insurance accounts. (10 Marks)

QUESTION TWO (20 MARKS)

- (a) Highlight the key set of financial statements used by companies to report their financial operations and position as required by IAS 1 (5 Marks)
- (b) Victoria is a sole proprietorship and registered her business as Victoria Company. She has prepared the following adjusted trial balance. Use the information in the trial balance to answer questions (i) to (iii) below

**VICTORIA COMPANY
ADJUSTED TRIAL BALANCE
31-Dec-18**

	Sh.'000'	
	DEBIT	CREDIT
Cash	305	
Accounts receivable	40	
Prepaid expense	83	
Supplies	8	
Equipment	21,720	
Accumulated depreciation - Equipment		2,910
Wages payable		88
Interest payable		360
Unearned rent		46
Long-term notes payable		15,000
Victoria, capital		4,034
Victoria withdrawals	2,100	
Rent earned		5,750
Wages expense	2,500	
Utilities expense	190	
Insurance expense	320	
Supplies expense	25	
Depreciation expense - Equipment	597	
Interest expense	300	
Total	28,188	28,188

Required:

- (i) Prepare the annual income statement from the adjusted trial balance of Victoria Company. (5 Marks)
- (ii) Prepare a statement of owner's equity from the adjusted trial balance of Victoria Company. Victoria's capital account balance of Sh.4,034,000 consists of a Sh.3,034,000 balance from the prior year-end, plus a Sh.1,000,000 owner investment during the current year. (5 Marks)
- (iii) Prepare a balance sheet from the adjusted trial balance of Victoria Company. (5 Marks)

QUESTION THREE (20 MARKS)

- (a) Differentiate between limited partnership and general partnership (4 Marks)
- (b) The following transactions and events affect the partners' capital accounts in several successive partnerships.

Required:

- (i) Prepare a table with six columns, one for each of the five partners along with a total column to show the effects of the following events on the five partners' capital accounts.

(10 Marks)

- **4/13/2013** Ronnie and Bonnie create R&B Company. Each invests Sh.10,000, and they agree to share income and losses equally.
- **12/31/2013** R&B Co. earns Sh.15,000 in income for its first year. Ronnie withdraws Sh.4,000 from the partnership, and Bonnie withdraws Sh.7,000.
- **1/1/2014** Robert is made a partner in RB&R Company after contributing Sh.12,000 cash. The partners agree that a 10% interest allowance will be given on each partner's beginning-year capital balance. In addition, Bonnie and Robert are to receive Sh.5,000 salary allowances. The remainder of the income or loss is to be divided evenly.
- **12/31/2014** The partnership's income for the year is Sh.40,000, and withdrawals at year-end are Ronnie, Sh.5,000; Bonnie, Sh.12,500; and Robert, Sh.11,000.
- **1/1/2015** Ronnie sells her interest for Sh.20,000 to Murdock, whom Bonnie and Robert accept as a partner in the new BR&M Co. Income or loss is to be shared equally after Bonnie and Robert receive Sh.25,000 salary allowances.
- **12/31/2015** The partnership's income for the year is Sh.35,000, and year-end withdrawals are Bonnie, Sh.2,500, and Robert, Sh.2,000.
- **1/1/2016** Elvis is admitted as a partner after investing Sh.60,000 cash in the new Elvis & Associates partnership. He is given a 50% interest in capital after the other partners transfer Sh.3,000 to his account from each of theirs. A 20% interest allowance (on the beginning-year capital balances) will be used in sharing any income or loss, there will be no salary allowances, and Elvis will receive 40% of the remaining balance—the other three partners will each get 20%.
- **12/31/2016** Elvis & Associates earns Sh.127,600 in income for the year, and year-end withdrawals are Bonnie, Sh.25,000; Robert, Sh.27,000; Murdock, Sh.15,000; and Elvis, Sh.40,000.
- **1/1/2017** Elvis buys out Bonnie and Robert for the balances of their capital accounts after a revaluation of the partnership assets. The revaluation gain is Sh.50,000, which is divided using a 1:1:1:2 ratio (Bonnie:Robert:Murdock:Elvis). Elvis pays the others from personal funds. Murdock and Elvis will share income on a 1:9 ratio.

- **2/28/2017** The partnership earns Sh.10,000 of income since the beginning of the year. Murdock retires and receives partnership cash equal to her capital balance. Elvis takes possession of the partnership assets in his own name, and the partnership is dissolved.

(ii) Journalize the events affecting the partnership for the year ended December 31, 2014.

(6 Marks)

QUESTION FOUR (20 MARKS)

(a) In accounting for professional firms, there can be an incomplete *work in progress* at the financial year end. This may pose a problem in reporting the profit earned for such firms. Explain the two approaches of ascertaining profits in this situation (5 Marks)

(b) Rachael and Simon advocates have been in practice for several years. They share profit and losses equally. They have availed for you the following information:

BALANCE SHEET AS AT DECEMBER 31, 2018

Capital Accounts	Sh.'000'	Sh.'000'	Fixed Assets	Sh.'000'	Sh.'000'
Rachael		3,308	Furniture and fittings	96	
Simon		3,000	Equipment	284	
		6,308	Motor vehicles	1,504	1,884
			Investment in NSE		3,000
Current Liabilities			Current Assets		
Client's account	128		Outstanding fees	480	
Accrued rent	136		Cash at bank: Office	1,212	
Accrued salaries	132	396	Cash at bank: Client	128	1,820
		<u>6,704</u>			<u>6,704</u>

RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2018

Receipts	Sh.'000'	Payments	Sh.'000'
Fees for service rendered	3,552	Equipment purchase	596
Client's deposit for buying land	1,536	Drawings: Rachael	300
Client's deposit for criminal case	1,296	Drawings: Simon	300
Received from clients for:		Deposit on land purchase contract for client	920
Disbursements:		Transport	224
Stationery	48	Office rent	896
Transport	60	Telephone and postage	292
Miscellaneous	92	Printing and stationery	152
		Motor vehicle expenses	392
		Water and electricity	140
		Office repairs	72
		Salaries and wages	960
		Miscellaneous	208

Additional information:

1. Depreciation is to be provided for on reducing balance at 12.5% for furniture, 15% for equipment and 25% for motor vehicles.
2. Fees in arrears at the year-end were Sh.1,280,000. The advocates have agreed to create a reserve against the fees arrears.
3. During the year, the criminal case client was defended in court. The advocate raised an interim fee note for Sh.500,000 but no entries have been made in the books.
4. Disbursement for stationery of Sh.20,000, transport Sh.12,000 and miscellaneous expenses Sh.4,000 have been charged to the client's account.
5. Accrued expenses were Sh.20,000, Sh.108,000 and Sh.112,000 for telephone, rent and salaries respectively.

Required:

- (i) The advocates' Income and Expenditure Account for the year ended December 31, 2018
- (ii) The clients account(s) for the same period
- (iii) Balance sheet as at December 31, 2018 (15 Marks)

QUESTION FIVE (20 MARKS)

- (a) Define and explain the terms consignment, consignor and consignee. (6 Marks)
- (b) What is the distinction between consignment and sale? (4Marks)
- (c) Based on the following information, prepare the cost of goods manufactured statement. (10 Marks)

Material purchases	90,000
Factory labour	60,000
Manufacturing overhead	30,000
Material inventory (beginning)	25,000
Material inventory (ending)	10,000
Freight-in, materials	5,000
Selling expenses	85,000
General and administrative expenses	30,000
Work in progress inventory (beginning)	15,000
Work in progress inventory (ending)	20,000

END