



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS & ECONOMICS**

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

**4<sup>TH</sup> YEAR 1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR**

**MAIN CAMPUS REGULAR**

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**COURSE CODE: BAB 1405**

**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING 1**

**EXAM VENUE:**

**DATE:**

**DURATION: 2 HOURS.**

**INSTRUCTIONS**

- a) Answer QUESTION ONE and any other TWO questions**
- b) Show ALL your workings and be as NEAT as possible**
- c) Candidates are advised not to write on the question paper**
- d) Marks allocated to each question are shown at the end of the question.**

## QUESTION ONE

- a) KuTeNda partnership has a fair value of its net identifiable assets at sh 600,000. The firm makes average net profits of sh. 80000 p.a. the normal average rate of return in the industry is 14% p.a. Determine the goodwill. (3 marks)
- b) Distinguish between positive goodwill and negative goodwill in relation to accounting for partnerships, explaining how each is treated in the accounts. (4 marks)
- c) Explain the method of valuing unsold consigned goods and the journal entry to record it. (3 marks)
- d) You have been the external auditor of MAERSK LTD, a transportation company that hires vehicles to different companies for the past THREE years. After your removal from office, you have been elected the chair of the audit committee of the Kenya National Highways Authority (KeNHA), a state-owned organization in a glamorous swearing-in ceremony.

### Required:

Discuss how you would execute your stewardship in the first year of your tenure. (4 marks)

- e) Kilio, Mmomonyoko and Sherehe are in partnership sharing profits and losses in the ratio 3:2:1. The following is a balance sheet as at 31 dec.

assets	shs	capital a/cs	shs
premises motor vehicles	15,000	Kilio	12,000
	3,800	Mmomonyoko	8,000
Fittings	1,200	Sherehe	4,000
stock	5,500	Current a/cs	
debtors	3,700	Kilio	2,000
cash/bank	1,400	Mmomonyoko	1,800
		Sherehe	(2,800)
		CREDITORS	<u>5,600</u>
	<u>30,600</u>		<u>30,600</u>

The partners decide to dissolve the partnership on 1<sup>st</sup> Jan. the premises and stock was sold for sh 13,000, debtors sh. 3,000 motor vehicle, fittings were sold for 2,500 and 1,100 respectively. Sherehe, due to his high affinity for partying associated with luxury, class and affluence is declared bankrupt due to his inability to pay huge debts he owed his personal friends, family and relatives.

**Required:** Prepare the necessary accounts to Show how the above transactions should be dealt with clearly explaining and demonstrating the application of the *Rule in Garner Vs Murray*. (14 marks)

- f) Evaluate any two guidelines used to apportion overhead expenditure to departments (2 marks)

### QUESTION TWO

Mkono Ltd. commenced business on 1 January 2022, at a head office in Mombasa and at one branch in Kisumu.

Purchases were made exclusively by the head office where all goods were processed before sale and there was no loss or wastage in processing.

Only processed goods received from head office were handled by the branch and these were charged thereto at processed cost plus 10%.

All sales whether by head office or the branch were at a uniform gross profit of 25% on processed cost.

The following trial balance was extracted on 31 Dec 2018 from the books before adjusting any of the matters referred below.

	Head office		Branch	
	sh “000”	sh “000”	sh “000”	sh “000”
Mkono - Capital		155,000		
Drawings	27,500			
Purchases	984,750			
Cost of processing	25,250			
Sales		640,000		410,000
Goods sent to / received by branch		462,000	440,000	
Selling & general expenses	94,500		10,600	
Debtors / creditors				

	154,800	300,700	56,800	5,400
Head office / branch - current accounts	194,900			130,750
Balance at bank	76,000		38,750	
	1,557,700	1,557,700	546,150	546,150

You further ascertain that;

- Goods charged by head office to the branch in December 2022 at sh. 22,000 were not received or recorded by the branch until January 2023, and a remittance of sh 42,150 from the branch to head office in December 2022, was not received or recorded at the head office until January 2023. Any necessary adjustments in respect of these items are to be made in the head office accounts.
- Stock taking at the branch disclosed a shortage of goods of a selling value of sh. 10,000. There was no shortage or surplus at the head office.
- The cost of the stock of unprocessed goods at head office on 31 December 2022 was sh 50,000.

For the purpose of the separate trading account at the head office, stocks are to be valued at cost. In the case of the separate accounts of the branch, stocks are to be valued at the price charged by the head office. Any necessary adjustments are to be made in the head office profit and loss account.

**Required:** Prepare in columnar form for the head office, the branch and combined business as a whole;

- Trading profit and loss accounts for the year ended 31 Dec 2022. (10 marks)
- Balance sheet as on that date. (10 marks)

### QUESTION THREE

The following is the statement of financial position of Elewa and Swali who share profits and losses in the ratio of 2:3 respectively.

<b>Elewa and Swali Enterprises</b>		
<b>Statement of financial position as at 31 December 2022</b>		
<b>Non current assets</b>	<b>sh"000"</b>	<b>sh "000"</b>
Motor vehicles	960	
Furniture	750	
Investments	1,110	
	2,820	
<b>Current assets</b>		
Stock	3,420	

Debtors	2,070	
Bank	1,170	
	6,660	<b>9,480</b>
<b>Capital &amp; liabilities</b>		
Capital: - Elewa	4,500	
Swali	3,000	
	7,500	
<b>Current liabilities</b>		
Creditors	1,920	
Accrued electricity	60	
	1,980	<b>9,480</b>

#### Additional information

- On 31 december 2022. Elewa Swali Ltd. Was incorporated to take over the business of the partnership.
- All assets except cash and bank and all liabilities except for electricity accrued to be taken over by the company while the accrued was paid by the partnership.
- The purchase consideration in sh 6,900,000 to be settled by issue of 240,000 ordinary shares of sh. 20 each at a premium of 20% fully paid and the balance in cash.
- The company also invited members of the public to subscribe for 150,000 ordinary shares of sh 20 each at a premium of 25% the issue was fully subscribed and paid for in full.
- Assets taken over by the company were revalued as follows;

Asset	sh''000''
Motor vehicles	900
furniture	300
stock	2,700
debtors	1,800
investment	1,620
Total	7,320

- The shares issued to the partners were distributed among the partners according to their profit and loss sharing ratio.

#### Required:

- Entries to close the books of the partnership
- Entries to open the books of the company
- An opening balance sheet of the company on 1 January 2023. (20 marks)

#### QUESTION FOUR

- Atieno, Babu and Charo are in partnership sharing profits and losses in the ratios 5:3:2. Their statement of financial position as at 31 December 2022 is as follows;

Liabilities	sh"000"	Assets	sh"000"
Capital			
Atieno	75,000	Plant & machinery	75,000
Babu	45,000	Land & buildings	80,000
Charo	30,000	Stock	20,000
Creditors		Debtors	47,000
Charo's Loan	12,000		
	<u>222,000</u>		<u>222,000</u>

On the same date, they decided to dissolve the partnership and to repay the amounts due to partners as and when the assets were realized as follows;

I Realization shs 45,000,000

II Realization shs. 100,000,000

III Realization shs. 60,000,000

**Required:** Dissolve the partnership and prepare a statement showing how the distribution should be made using the **Maximum Loss method**. (12 marks)

- b) What are the possible reasons for differences between the consignment stock recorded by the consignor and the consignee? How are these differences resolved? (4 marks)
- c) In relation to Accounting for foreign branches, explain why and how a profit or loss on exchange may arise. (4 marks)

### QUESTION FIVE

a) ABC ltd. Of Mombasa sent 1000 cases of reservoirs to XYZ ltd at sh. 100 per case. Expenses on consignment incurred by the consignor amounted to sh. 30,000.

XYZ ltd. Were working as agents. commission was charged at 5%. XYZ ltd paid by cheque sh. 200,000 as an advance to ABC Ltd immediately on receipt of the consignment. After 6 months, an account sales was received by ABC ltd giving the following information.

- i) Sale proceeds of 750 cases = sh. 1,200,000
- ii) Commission charged at agreed rate of 5% .
- iii) Consignees expenses amounted to sh. 50,000
- iv) Bill of exchange was sent by XYZ ltd for the amount due to ABC ltd along with a/c sales. This bill was discounted immediately by ABC ltd. For sh. 780,000. Assuming that ABC ltd have to close their books on the receipt of the above account sales, show the following entries.

- a) Ledger accounts in the books of ABC ltd. (8 marks)
- b) Consignors account in the books of XYZ ltd. (4 marks)

b) M sells goods to two companies on 1/7/2023 to R Johnson ltd sh 2,460, to B Scarlet sh 1,500. He draws a bill of exchange on each of them and they are both accepted. He discounts both of the bills with the bank on 4/7/2023 and suffers discounting charges of sh. 80 on Johnson bill and sh 65 on Scarlet's bill On 1/9/2023, the bills mature and Johnson ltd meets its liability. Scarlet's bill is dishonoured and is duly noted on 4/9/2023. The noting charges being sh. 6.

**Required;** show the above in the necessary accounts in the books of M. (8 marks)