

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**YEAR III SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBA 2301: FINANCIAL REPORTING**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND**

**ANY OTHER TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

Kamau and Kimani are partners sharing profits and losses in the ration 3:2 respectively. The partnership agreement provided for Kamau a salary of Shs.400,000 per annum and interest on capitable for both partners at 5% annum. The partnership balance sheet as at 31st December 2008 was as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Shs ‘000’ | Shs ‘000’ |  | Shs ‘000’ | Shs ‘000’ |
| Capital Acc |  |  | Premises |  | 20,800 |
| Kamau | 16,000 |  | Equipment at cost | 8000 |  |
| Kimani | 10,000 | 26,000 | Depreciation | (4800) | 3200 |
|  |  |  |  |  | 2400 |
| Current Account |  |  |  |  |  |
| Kamau | 3,200 |  |  |  |  |
| Kimani | (300) | 2900 | Stock | 5600 |  |
| Creditors Accrual |  | 3300 | Debtors | 2200 |  |
|  |  | 32,200 | Cash | 400 | 8,200 |
|  |  |  |  |  | 32,200 |

On 1st April 2009 Kimata was admitted to the partnership. He had been a salaried employee earning Shs.800,000 per annum. Terms of his admission to the partnership were as follows;

1. Kamata would introduce Shs.12,000,000 in cash as capital into the business.

2. Goods will should be valued at Shs.14,000,000 in for the purpose of admission. It was agreed that goodwill should not be included in the balance sheet of the new partnership.

3. Kamata should receive a salary as a partner of Shs.6,000,00 per annum Kimani salary should be raised from 5% to 6% per annum and calculated on the capital accounts after elimination of good will.

4. The new profit sharing ratio for Kimani, Kamau and kamata should be 2:4:1 respectively.

In preparing the draft financial statements for the year ended 31/12/2009 the partnership accountant Otieno calculated the partnership profit for the year was Shs.55,155,000 and the working capital for the business as at 31/12/2009 was:

|  |  |
| --- | --- |
|  | Shs ‘000’ |
| Stock | 12,555 |
| Debtors | 3,500 |
| Cash | 8,800 |
| Creditors and Accruals | 3,480 |

Profit is assumed to accrued evenly during the year. Partners cash drawing for the year where Kamau Shs.23,705,000, Kimani Shs.19,525,000 and Kamata Shs.8,250,000.

**REQUIRED:**

(a) The profit and loss approximation account for the year ended 31st December 2009. (10 marks)

(b) The current and capital accounts of the partner for the year ended 31st December 2009. (10 marks)

(c) The balance sheet as at 31st December 2009 (10 marks)

**QUESTION TWO (20 MARKS)**

(a) Discuss the Distortion created in financial statements when price level changes are ignored. (10 marks)

(b) Explain circumstances that give rise to goodwill. (10 marks)

**QUESTION THREE (20 MARKS)**

Munyu Miries Ltd obtained a lease contract to extract day at a loyalty of shs.500 per ton extracted with a minimum rest of Shs.1,500,000 per annum. The company has a right to recoup short workings for the next two years.

The following data is provided for the first years of operations:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 |
| Output (in tons) | 200 | 400 | 3500 | 5000 |

**REQUIRED:**

(a) Royalties account (8 marks)

(b) Land lords account (7 marks)

(c) Short working account (5 marks)

**QUESTION FOUR (20 MARKS)**

(a) Jei and Kei were in partnership sharing profits and losses in the ratio of 3:1 respectively. Their balance sheet on at 31st December 2008 is provided below:

|  |  |  |  |
| --- | --- | --- | --- |
| Buildings | 250,000 | Capital |  |
| Furniture | 10,000 | Jei | 400,000 |
| Stock | 200,000 | Kei | 100,000 |
| Debtors | 160,000 | Creditors | 375,000 |
| Bill receivable | 30,000 |  |  |
| Bank | 225,000 |  |  |
|  | 875,000 |  | 875,000 |

(b) They agreed to admit Zed as a partner on the following terms:

i) Create a goodwill of Shs.200,000

ii) Stock and furniture to be depreciated by 10%

iii) Buildings to be appreciated by 20%

iv) Provide for doubtful debt at 5% of debtors

v) Zed to pay Shs.100,000 on his capital

**REQUIRED:**

i) Revaluation account (3 marks)

ii) Capital accounts (5 marks)

iii) Balance sheet of the new firm (12 marks)

**QUESTION FIVE (20 MARKS)**

XYZ Company operates several braches where the head office maintains all the accounts.

The following information relates to Kajiado branch for the year ended 31st December 2013.

|  |  |
| --- | --- |
| 1st Jan | Shs ‘000’ |
| Branch Stock | 55,000 |
| Branch Debtors | 40,000 |
| 31st December |  |
| Branch Stock | 70,000 |
| Transactions for the year |  |
| Goods sent by Head Office | 600,000 |
| Goods returned by branch | 15,000 |
| Cash sales | 250,000 |
| Credit sales | 700,000 |
| Goods stolen at branch | 5,000 |
| Cash stolen at branch | 35,000 |
| Returns form branch debtors | 3,000 |
| Cash received from branch debtors | 630,000 |
| Discount allowed to debtors | 12,000 |
| Bad debtors | 7,500 |
| Expenses paid by Head Office |  |
| Salaries | 40,000 |
| Rent | 25,000 |
| General | 13,000 |

**REQUIRED:**

(a) Kajiado Branch Account (8 marks)

(b) Goods sent to Kajiado Account (3 marks)

(c) Branch Debtors Account (4 marks)

(d) Branch Profit and Loss Account (5 marks)