



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

CITY CAMPUS – EVENING

ABA 403: ADVANCED FINANCIAL ACCOUNTING I

Date: 19th July, 2017

Time: 5.30 - 8.30pm

INSTRUCTIONS:

- Answer ANY FOUR Questions
- All questions carry equal marks
- Show all workings for full award of marks
- Begin each question on a fresh page



Question One

Anita, Brenda and Chausiku who are partners sharing profits and losses in the ratio 3:2:1 have provided their balance sheet for the year ending 31st. December, 2014 as below:

<i>Non-current assets:</i>		
Freehold property		1,220,000
Machinery		<u>160,000</u>
		1,380,000
<i>Current assets:</i>		
Stock	450,000	
Debtors	750,000	
Cash at Bank	<u>800,000</u>	
	2,000,000	
<hr/>		
<i>Less Current Liabilities:</i>		
Loan	100,000	
Creditors	<u>1,200,000</u>	<u>700,000</u>
		2,080,000
<i>Financed by:</i>		
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<i>Capitals:</i>		
Anita	570,000	
Brenda	480,000	
Chausiku	<u>250,000</u>	1,300,000
<i>Current accounts:</i>		
Anita	350,000	
Brenda	300,000	
Chausiku	<u>130,000</u>	<u>780,000</u>
		2,080,000

This balance sheet was drawn on the day they agreed to dissolve the partnership and they provided additional information as below:

- 1) The assets were sold and realized the following amounts:

Freehold property	shs	1,340,000
Machinery	shs	175,000
Stock in Trade	shs	415,000
Debtors	shs	720,000

- 2) The partners incurred shs 35,000 on realization.

- 3) Only part of machinery was sold. The remaining portion was taken over by Anita at shs 22,000.

- 4) Trade creditors agreed to take shs 7 for every shs 10 owed to them.

- 5) The loan was paid in full.

Required: Show the realization account, Bank account and the Partners capital accounts

Question Two

Numerical Machines Limited consigned 40 machines to Singh Engineering Works on 1st.

January 2014 on the following terms:

- a) All machines had a factory cost of shs 100,000 and were to be sold at 20% above cost price. Any sale below the stipulated selling price shall have such deficit in selling price borne by Singh Engineering Works, while any sale above the stipulated selling price shall have such extra amount shared equally between the consigner and the consignee (i.e. 50% retained by Singh Engineering Works).
- b) Singh Engineering Works is to be paid 3% commission and 2% *del credere* commission on all sales. Numerical Machines Limited incurred freight charges of sh 400,000 in consigning the machines.

Singh Engineering Works sent the account sales on 30th June stating that:

- 10 machines were sold for sh 120,000 each
- 5 machines sold for 100,000 each
- 15 machines sold for 140,000 each

Singh Engineering Works had incurred unloading charges amounting to shs 40,000 and selling expenses of shs 60,000. He had collected the entire sale proceeds except shs 20,000 which had become a bad debt. Singh Engineering Works Limited sent a bank draft for the net amount due to Numerical Machines Limited.

On 30th September, 2014 Singh Engineering Works sent a further account sale for 10 machines sold at shs 120,000 each. Selling expenses amounted to shs 15,000. He also sent a bank draft for the net amount due.

Numerical Machines Limited reconciles their books with the Consignees after every 6 months.

Required:

Prepare the Consignment account, Consignees account and Goods sent on consignment account.

Note that Numerical Machines Limited prepares final accounts at the end of each year.

Question Three

Winam Enterprises manufactures and invoices goods to its Kisii Branch at cost plus 25% thereon. Both cash and credit sales are effected by the branch. Branch expenses are paid direct from the Head Office, all cash received by the branch being remitted to the Head Office. Below are the details of transactions for the year ended 31.12.2010

	Kshs.
Goods from Head Office, at invoice price	400,000
Goods returned to Head Office – invoice price	8,000
Stock 1.1.2010 – Invoice price	80,000
Credit sales in the year	300,000
Cash sales in the year	187,000
Opening debtors balance	52,000
Cash received from debtors	285,000
Discounts allowed to customers	3,000
Bad debts written off	5,000
Returns from customers – at selling price	7,000
Rent and rates	6,000
Salaries and wages	12,000
Sundry expenses	3,000
Stock 31.12.10	60,000

Required:

Open the necessary accounts in the books of the Head Office

Question Four

Kalchal enterprises deals in textiles and operates two departments as Suntex and Raintex. Their Trial Balance for the year ended 31st December, 2013 was as below:

	Debit (Shs)	Credit (Shs)
Capital		900,000
Purchases: Suntex	834,300	
Raintex	1,415,700	
Drawings	215,280	
Trade debtors/creditors	381,600	47,583
Cash and bank balance	326,538	
Opening stock: Suntex	187,200	
Raintex	647,550	
Sales: Suntex		1,351,080
Raintex		4,053,240
Salaries: Suntex	402,345	
Raintex	441,630	
Furniture and fittings	450,000	
Rent and rates	432,000	
Electricity and water	28,800	
Advertisement	220,320	
Carriage outward	164,160	
Printing and stationery	153,360	
Discounts allowed	51,120	

Additional information:

- I. Physical count of stock on hand in the two departments showed that Suntex had stock worth shs 192,240 and Raintex shs 407,700
- II. Furniture, fixtures and fittings are to be depreciated at 10% per annum and charged to Raintex
- III. Expenses are to be apportioned to departments in proportion to floor space occupied: Suntex $\frac{1}{4}$ and Raintex $\frac{3}{4}$.
- IV. There are no inter departmental transfer of goods during the year and the firm prepares financial statements at the end of each year.

Required:

The firm's financial statement in a suitable form for the year ended 31st December, 2014 so as to show gross and net profits for each department and a balance sheet for the whole firm.

Question Five

Able, wise and Cammy have been operating a partnership firm where they share profits and losses in the ratio 2:2:1 respectively. Wise retired on 31st December, 2014 when their Balance Sheet was as below:

Non-Current Assets:			
Premises			750,000
Furniture & Fittings			150,000
Motor Vans			350,000
Currents assets:			
Stock		60,000	
Debtors		50,000	
Prepayments		1,000	
Cash		<u>20,000</u>	
		131,000	
less: Current Liabilities:			
Creditors	10,000		
Accruals	11,000		
Bank overdraft	<u>20,000</u>	<u>(41,000)</u>	<u>90,000</u>
			<u>1,340,000</u>
Capital:			
Able		600,000	
Wise		400,000	
Cammy		<u>200,000</u>	1,200,000
Current Accounts:			
Able		35,000	
Wise		25,000	
Cammy		<u>30,000</u>	90,000
Loan - Wise			<u>50,000</u>
			<u>1,340,000</u>

The partners agreed on the following terms upon retirement of Wise:

- 1) Assets are to be revalued as:

Premises	shs1,000,000
Motor Vans	shs 300,000
Furniture & fittings	shs 125,000
Stock	shs 50,000

- 2) To write off shs 5,000 of the debtors as bad debts and set up a provision for doubtful debts at 5% of the debtors balance

- 3) To recognize goodwill at a total valuation of shs 200,000 but the new firm to continue with the accounting policy of not showing goodwill account in the books
- 4) The balance of **Wise**' current account to be settled immediately while his capital account is to remain in the partnership account as a long term loan to be repaid by annual installments of shs 80,000 at 15% interest per annum

Required:

- a) Ledger Accounts to record the transactions
- b) Balance sheet as at 31st December,2014 immediately after the retirement

Question Six

Bisenge and Chagama have presented their balance sheet as below:

Bisenge and Chagama
Balance sheet as on 1st January, 2015

Capital:		
Bisenge	700,000	
Chagama	<u>400,000</u>	1,100,000
Current liabilities:		
Creditors	239,000	
Bank overdraft	<u>150,000</u>	<u>389,000</u>
		<u>1,489,000</u>
Represented By:		
Premises		350,000
Machinery		250,000
Furniture and fittings		180,000
Current assets:		
Stock	450,000	
Debtors	250,000	
cash	<u>9,000</u>	<u>709,000</u>
		<u>1,489,000</u>

They have agreed to admit Makori as a partner from 1st January, 2015 and that the new profit and loss sharing ratios shall be 2/5, 2/5 and 1/5 for Bisenga, Chagama and Makori respectively. Before admission of the new partner, Bisenge and Chagama were sharing profits and losses in the ration 4:1

Goodwill is to be valued before the admission of Makori and is estimated at shs 500,000. The goodwill is to be retained in the books henceforth.

Makori is to bring in shs 150,000 as capital

Required:

- a) Journal entries to show the creation of goodwill and payment of capital
- b) Relevant ledger accounts
- c) Balance sheet after the admission