



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING 1

DATE: 10/8/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

Marks allocated for each question are shown at the end of the question.

Show your working where necessary.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Distinguish between provisions and contingencies. Give two examples of each. (4 marks)
- b) Mwamba died intestate leaving three wives Kadzo, Saida and Mbeyu. Zuhura his third wife had predeceased him leaving one daughter Zahra. Kadzo the first wife has no children. Saida the second wife has two sons Zuma and Wembe while Mbeyu the fourth wife has a son and a daughter Zizi and Chizi respectively.

At the time of death, Mwamba's estate was as follows:

	Kes "000"
Personal effects	500
Household effects	1,500
Motor vehicles	2,100
Freehold land	3,200
Building	2,600
Cash at bank	1,300

Required: Statement showing how Mwamba's estate will be distributed to the primary beneficiaries.

(12 marks)

- c) Kwashi and Kwame have been operating a partnership business for the last five years. On 1 July 2021, they decided to convert their business into a limited liability company. Explain FOUR reasons that may have necessitated that move. (8 marks)
- d) Explain THREE sources of revenue for county governments in Kenya (6 marks)

QUESTION TWO (20 MARKS)

A and B are in partnership selling necklaces at the Malaysia market. They agreed to share profits and losses in the ratio of 3:2 respectively. The draft statement of financial position as at 30th June 2021 is as follows:

A and B Partnership Statement of financial position as at 30th June 2021.

Details	Sh. "000"	Sh. "000"
Non-Current Assets:		
Freehold Premises	3,000	
Fixtures and Fittings	100	
Motor Vehicles	<u>300</u>	3,400
Current Assets:		
Accounts Receivable	2,000	
Cash at bank	<u>60</u>	<u>2,060</u>
		<u>5,460</u>
Equity and Liabilities:		
Capital and Reserves		
Capital Accounts: A	2,000	
B	<u>250</u>	2,250
Current Accounts: A	300	
B	<u>50</u>	350
Non – Current Liabilities		
Loan from A		1,600
Current Liabilities:		
Accounts Payables		<u>1,260</u>
		<u>5,460</u>

Additional information:

1. AB limited was incorporated on 1 July 2021 for the purpose of taking over the business of the partnership. It is to acquire the freehold premises at sh. 4,000,000 and other assets with the exception of cash and motor vehicles at book values.
2. The current liabilities are also to be taken over by the new company. The purchase consideration is sh. 6,000,000 and it is to be settled by issue of 20,000 ordinary shares whose par value is sh. 100 each in AB limited and a cash payment of sh. 3,000,000 which AB limited plans to raise through a bank loan. A is to take over the car at a valuation of sh. 250,000. The partners have agreed to divide the shares received in the ratio in which they share profits and losses.

3. The loan from A is to be paid by the partnership

Required:

- a) Prepare the following accounts in the books of the partnership.
- i. Realization (3 marks)
 - ii. Capital (3 marks)
 - iii. Bank (2 marks)
 - iv. AB Limited (2 marks)
- b) In the books of AB limited, prepare;
- i. Business purchase account (2 marks)
 - ii. Vendor account (2 marks)
 - iii. Opening statement of financial position of AB limited as at 2 July 2021. (6 marks)

QUESTION THREE (20 MARKS)

Tajiri (aged 86) died in a road accident on 31 December 2019. On May 2020 after his executors had paid all his debts, (except for the mortgage on his freehold house referred to below, testamentary and funeral expenses, his estate was ascertained as follows:

	Sh. "000"	Sh. "000"
Cash on bank accounts		8,500
Freehold house		6,500
Jaguar motor car		720
Mercedes motor car		1,260
Stamp collection		850
Debt due from William		120
Furniture and other personal effects		1,345
10,000 Ordinary Ksh. 10 shares in KBL		1,200
4,500 Ordinary Ksh. 10 shares in NPL		740
Ksh. 800,000 5% Kenya Stock		235
Income received to date:		
Bank interest	230	
Dividends from NPL	<u>37</u>	
	267	
Less: Mortgage interest paid March 20X2	<u>120</u>	
	<u>147</u>	

Extracts from Tajiri's will left bequests as follows:

- a) 'To my wife Annie, I leave my furniture and other personal effects and the residue of my estate after payment of my debts and expenses.'
- b) 'To each of my sons, David, Jack and Stuart, Ksh. 1million'
- c) 'To my unmarried daughter, Clare, my freehold house subject to any mortgage thereon.'
The house was subject to a mortgage of Ksh. 2million, carrying interest at 12% per annum payable 31 March and 30 September.
- d) 'To my friend Tony, whichever of the motor cars owned by me, at the time of my death he may choose'
- e) 'To my good friend Gerry Gangla, Ksh. 100,000.'
- f) 'To my friend Ben, some of my furniture.'
- g) 'To my cousin Susan, my painting of the "Street Scene" by Renoir.'
- h) 'To my friend Dennis, Ksh. 200,000 on condition that, he gives up the bad habit of smoking.'
- i) 'To my brother Joseph, 1,000 shares in Brooke Bond (K) Ltd.'
- j) 'To my sister Elsie, Ksh. 600,000.'
- k) 'To my secretary Betty, half of my holdings of Ordinary Ksh. 10 shares in KBL.'
- l) 'To my cousin Mariam, my holding of Ksh.800, 000 5 ½% Kenya Stock and my holding of shares in Cassava Ltd.'
- m) 'To my chauffeur, Malcolm, Ksh. 300,000.'
- n) 'To my gardener Jeremiah, Ksh 150,000 if still in my employment at the time of my death.'
- o) 'To my friend Eric, my 6,000 Ordinary shares in NPL.'
- p) 'To my nephew Frank, 4,000 Ordinary Ksh. 10 shares from my holding of such shares in KBL.'
- q) 'To my niece Tracey, Ksh.200, 000 payable out of my holding of Ksh.10 Ordinary shares in KBL.'
- r) 'To my friend Timothy Ksh.150, 000.'
- s) 'To my cousin Hazel, the Ksh.120, 000 which William owes me.'
- t) 'To St. Peter's Church Ksh. 100,000 to provide a stained glass window in memory of my mother.'
- u) 'To my good friend Gangla Ksh. 150,000 for looking after my house for years when I went on holiday.'

Tajiri's executors ascertained that the following beneficiaries were dead:

- Son Jack, died 2017, leaving a wife and two children.

- Son Stuart, died 2016, leaving a wife.
- Sister Elsie, died 2014, leaving a husband and two daughters.
- Chauffeur Malcolm (aged 88) died in the same accident as Tajiri. It was impossible to determine the order in which Tajiri and Malcolm died.

The executors also advise you that:

- i. Tony elected to have the Mercedes car.
- ii. Tajiri sold the Renoir painting in 2015 for Ksh.3million.
- iii. Dennis replied in a letter to the executors that he had no intention of giving up smoking.
- iv. Tajiri owned no shares in Brooke Bond Ltd. The value of 1,000 shares in that company is Ksh.330, 000.
- v. There is no such investment as 5 ½% Kenya Stock. The reference in Tajiri's will to 5 ½% is thought to be a typing error not previously noticed.
- vi. Tajiri sold his shares in Cassava Ltd. Using the proceeds of 900,000 to purchase his shareholding in KBL.
- vii. The gardener, Jeremiah, retired in June 2018.
- viii. In early 2018, Printer Ltd. merged with Nation Ltd. to form a new company Nation Printers Ltd. and Tajiri Received 4,500 new Ordinary shares in NPL in exchange for his 6,000 shares in Printers Ltd.
- ix. Timothy replied in a letter that he 'didn't' want anything from Tajiri's estate because actually he hated the sight of him.'
- x. In 2017 Tajiri had paid Ksh. 125,000 for a stained glass window in St. Peter's Church in memory of his mother.
- xi. His daughter Clare had married in April 2017.
- xii. Gerry Gangla claimed both legacies.

NOTE:

- I. KBL: Kenya Breweries Limited
- II. NPL: Nation Printers Limited

Required:

A list of TEN legacies to which the executors should not assent, briefly explaining the reason why the legacy is invalidated.

QUESTION FOUR (20 MARKS)

Jipcho, Kiptum, and Limo were partners in JKL enterprises. The partnership manufactured items of equipment which were hired out for outdoor activities. They shared profits and losses equally after providing for interest on their capital balances at the rate of 5% per annum.

The trial balance extracted from the partnership's books of account as at 31 December 2019 was as follows:

	Sh. "000"	Sh. "000"
Non – Current Assets	980	
Joint life assurance policies	300	
Cash & Cash equivalents		600
Stock of raw materials	970	
Accounts payable		770
Accounts receivable	400	
Capital accounts: Jipcho		520
Kiptum		260
Limo		240
Joint life assurance fund		300
Customer deposits		820
Work – in – Progress	<u>860</u>	
	<u>3,510</u>	<u>3,510</u>

Additional information:

1. Due to some disagreement on the running of the firm, the partners decided to dissolve the partnership on 31 March 2020 after the following events had taken place.

	Sh.
Credit purchases of raw materials	2,025,000
Raw materials used in production	3,575,000
Direct wages paid	7,800,000
Payment to suppliers of raw materials	4,500,000
Credit sales of finished goods	28,000,000
Cash received from credit customers	22,500,000
Payments for general expenses	15,965,000
Cash drawings: Jipcho	2,600,000
Kiptum	1,500,000
Limo	1,400,000

2. Joint life assurance policies premium amounting to Sh. 600,000 was on 15 February 2020. The policies covered the lives of the three partners.

3. Customers were required to pay a deposit for special orders. As at 31 March 2020, all goods relating to special orders had been supplied by the partners.
4. Work – in – Progress as at 31 March 2020 was valued at Sh. 4,570,000.
5. The partnership ceased operations on 31 March 2020 with Jipcho taking over a motor vehicle at a valuation of Sh. 1,060,000. The other assets were sold and realized on piecemeal basis. Any cash available was distributed immediately.
6. The assets were realized as follows:

Date	Asset	Amount (Sh. “000”)
31 March 2020	Joint life assurance policies	4,500
15 April 2020	Accounts receivable (part)	2,800
15 April 2020	Raw materials (part)	8,500
30 April 2020	Accounts receivable	5,850
30 April 2020	Raw materials and work in progress	12,070
15 May 2020	Non – current assets	10,500

Required:

- a) Statement of cash distribution (10 marks)
- b) Partners’ capital account (3 marks)
- c) Realization account (4 marks)
- d) Bank account (3 marks)

QUESTION FIVE (20 MARKS)

The approved estimates and actual expenditure details for Vote E45 of Ministry ABC for the financial year 2020/2021 were as follows:

	Approved Estimate Sh. 000	Actual Expenditure Sh. 000
000 Personal emoluments	246,560	195,040
050 House allowances	39,100	28,520
080 Passages and leave expenses	8,280	1,334
100 Transport operating expenses	32,200	27,186
110 Travelling and accommodation	2,668	3,312
120 Postal and Telegram expenses	9,200	6,624
190 Miscellaneous expenses	34,960	33,764
196 Training expenses	11,960	13,476
230 Purchase of equipment	42,000	79,600
620 Appropriations- In Aid	10,000	11,120(realized)

The ministry made four equal withdrawals from the exchequer in July 2020, October 2020, January 2021 and May 2021. In total, the ministry had withdrawn sh.400, 000,000 by the end of the 2020/2021 financial year. Supplementary estimates authorized during the 2020/2021 financial year were as follows:

	Sh.000
000 Personal emoluments	12,000(reduction)
196 Training expenses	2,000(increase)
620 Appropriation-In Aid	8,000(increase)

Required:

- a) Appropriation account for the year ended 30 June 2021 (10 marks)
- b) General Account of Vote for the year ended 30 June 2021 (2 marks)
- c) Exchequer account for the year ended 30 June 2021 (3 marks)
- d) Paymaster General (PMG) account for the year ended 30 June 2021 (3 marks)
- e) Statement of assets and liabilities as at 30 June 2021 (2 marks)