



# MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING 1

DATE: 25/8/2022

TIME: 11.00-1.00 PM

## INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO questions**
- Show your working where necessary.

## QUESTION ONE: COMPULSORY (30 MARKS)

- a) The following are the approved estimates and actual details of the ministry of labour for the fiscal year 2021/2022

	Ksh. "000"
Drawings from the exchequer	780,000
Gross estimated expenditure	800,000
Estimated appropriation in aid	15,000
Actual appropriation in aid	18,000
Gross expenditure	690,000

In the supplementary estimates authorized during the fiscal year 2021/2022, the estimated appropriation in aid was increased by Ksh. 2,000,000.

**Required:** Prepare the following accounts

- General account of vote (GAV) (2 marks)
- Exchequer (1½ marks)
- Paymaster general (PMG) (2 marks)
- Appropriation in aid (AIA) (1½ marks)

- b) Jogoo died intestate leaving his two wives Pendo and Zawadi whom he married under a system of law which permits polygamy. Riziki, his second wife had pre deceased him leaving three children, Shukurani, Baraka and Amani who are still alive. Pendo has four surviving children, Nasa, Nana, Nene and Nina while Zawadi has no children.

At the time of death, Jogoo's estate comprised of;

	<b>Sh. "000"</b>
Personal effects	900
Household effects	1,800
Motor vehicle	1,400
Residue	3,100

- Required:** Statement showing how Jogoo's estate will be distributed. (13 marks)

- c) Sudi and Sidi who were partners in Susi enterprises shared profits and losses in the ratio of 3:5 respectively. The following data was extracted from their books of account relating to the year ended 31 December 2021.

	Ksh. "000"
Cash at bank	1,200
Other assets (Net Book Value)	8,600
Capital A/cs:	
Sudi	3,000
Sidi	5,000
Creditors	1,800

On January 1, 2022 the partners decided to dissolve the business. All other assets were realized at their book values except furniture which was sold at Ksh.1,200,000 above its book value. Auctioneer's fees amounted to Ksh. 400,000.

- Required:** Prepare the realization account necessary to close off the business. (4 marks)
- d) Explain THREE limitations of Historical Cost accounting. (6 marks)

## QUESTION TWO (20 MARKS)

Munro Ltd., a manufacturing company, provides for deferred income tax in accordance with IAS 12 (Income Taxes).

	<b>Sh. 000</b>
<b><u>Assets</u></b>	
<b><u>Non-current assets</u></b>	
Property plant and equipment	14,000
Intangible assets	4,000
Good will	6,000
Financial assets-available for sale	12,000
<b><u>Current assets</u></b>	
Inventories	7,500
Trade receivables	6,650
Prepayments	3,200
Cash and cash equivalents	<u>1,250</u>
	<u>54,600</u>
<b>Equity and liabilities</b>	
<b>Equity</b>	
Share capital	12,000
Revaluation reserves	3,000
Retained profit	12,260
<b>Non-current liabilities</b>	
Interest bearing loans	16,000
Deferred income tax (1 May 2020)	1,200
<b>Current liabilities</b>	
Trade and other payables	8,000
Employee benefits	2,000
Current income tax	<u>140</u>
	<u>54,600</u>

**Additional information;-**

1. The tax bases of the assets are as follows;-

	Sh. 000
Property plant and equipment	2,800
Prepayments	1,500
Interest bearing loans	17,000
Financial assets	14,000

2. Inventories are stated at fair value less costs to sell which is lower than the original cost due to a general provision for price decline of sh. 3.5 million.
3. The intangible assets comprise development cost which is tax deductible when the amount is paid out. The cost of intangible assets was paid in the year 2018 and is presented net of the amortization cost.
4. Goodwill and employee benefits are tax exempt.
5. Trade and other payables include provision for leave allowance of sh. 1.4 million which is tax deductible on cash basis.
6. Trade receivables are stated net of general allowances for bad debts at the rate of 5% of the gross receivables. The general allowance is not tax deductible until it becomes specific.
7. The building which included property, plant and equipment was revalued during the year. The increase in value of sh. 3 million does not affect the tax base.
8. The tax base of other items is equal to their carrying amount.
9. The tax rate applicable is 30%.

**Required;**

- a) Deferred tax balance as at 30 April 2021. (14 marks)
- b) Deferred income tax account as at 30 April 2021. (6 marks)

### QUESTION THREE (20 MARKS)

Chanda, Pete and Tenda have been partners in a business for many years, sharing profits and losses in the ratio 2:2:1 respectively.

On 30 June 2021, the partners agreed to convert their business into that of a limited liability company to be named Chapete Limited.

The trial balance extracted from the records of the partnership as at 30 June 2021 was as follows:

	Sh. "000"	Sh. "000"
Property at cost (Building: Sh. 50 million)	60,000	
Plant and equipment at cost	25,000	
Motor vehicles at cost	12,000	
Furniture and fixtures at cost	4,000	
Provision for depreciation (1 July 2020):		
Building		5,000
Plant and equipment		13,000
Motor vehicles		4,800
Furniture and fixtures		1,600
Net profit for the year to 30 June 2021		28,800
Trade receivables and trade payables	18,200	14,700
Inventory (30 June 2021)	25,300	
Cash at bank balances	8,120	
Fixed capital accounts:		
Chanda		30,000
Pete		20,000
Tenda		10,000
Bank loan		18,000
Current accounts:		
Chanda		4,280
Pete		3,560
Tenda		2,340
Drawings:		
Chanda	1,580	
Pete	1,170	
Tenda	710	
	<u>156,080</u>	<u>156,080</u>

**Additional information:**

1. The property, plant and equipment in the partnership were being depreciated as follows:

<b>Asset</b>	<b>Rate per annum</b>	<b>Basis</b>
Building	2%	Straight line
Plant and equipment	12.5%	Reducing balance
Motor vehicles	20%	Straight line
Furniture and fixtures	10%	Straight line

Depreciation for the year ended 30 June 2021 had not been provided for.

2. The partners were entitled to an interest on their fixed capital balances at the rate of 10% per annum. No salaries were paid to the partners.
3. The tangible non-current assets were to be transferred to the new company at their fair values as follows:

	<b>Sh. "000"</b>
Property	57,000
Plant and equipment	16,000
Motor vehicles	9,500
Furniture and fixtures	3,500

4. The current assets and the liabilities were taken over by the new company at their book values.
5. The purchase consideration amounted to Sh. 110 million and was settled by the new company through the issue of ordinary shares of Sh. 10 each to the partners in satisfaction of the amounts due to them upon conversion.

**Required:**

- a) Realization account as at 30 June 2021. (8 marks)
- b) Opening statement of financial position as at 1 July 2019 for Chapete Limited. (12 marks)

#### QUESTION FOUR (20 MARKS)

The following information was extracted from the books of the Ministry of Finance for the fiscal year ended 30 June 2021.

	<b>Shs. “000”</b>
Reserves	900,000
Accumulated fund as at 1 July 2020	375,000
Cash and cash equivalents	250,000
Receivables	100,000
Inventory	50,000
Transfer from other ministries	25,000
Other revenue	300,000
Payables	250,000
Land building and furniture	1,750,000
Computer equipment and motor vehicles	250,000
Wages and salaries	500,000
Transfer to other ministries	250,000
Supplies and consumables used	200,000
Other expenses	600,000
Finance cost	50,000
Long term borrowing	500,000
Liability for long-term employee benefits	100,000
Transfer from exchequer	1,250
Fees, fines and licenses	250
Revenue from exchange transactions	50

#### Required:

- a) Statement of financial performance for the year ended 30 June 2021. (8 marks)
- b) Statement of financial position as at 30 June 2021. (12 marks)

**QUESTION FIVE (20 MARKS)**

a) International Accounting Standards (IAS) 10 defines events after the reporting date as those events which could be favorable or unfavorable, that occur between the end of the reporting period and the date that the financial statements are authorized for issue.

**Required:** With reference to IAS 10,

- i. Distinguish between “adjusting” and “non – adjusting” events. (3 marks)
  - ii. Describe the accounting treatment of events after the reporting period. (3 marks)
- b) The parents of Mwanzo, Pili and Tatu died in March 2016. Friends and well-wishers organized a fund raiser in May 2016 which raised Sh. 3,960,000. This money was to cater for the welfare of the three children. Mr. Wema who was appointed as the trustee invested this amount as follows;

	<b>Sh.</b>
9,600 ordinary shares of Sh. 10 par value in Kuza Ltd	864,000
12,600 ordinary shares of Sh. 10 par value in Zidisha Ltd	1,512,000
13,200 ordinary shares of Sh. 10 par value in Faida Ltd	<u>1,584,000</u>
	<b><u>3,960,000</u></b>

Mr. Wema also established an accumulation and maintenance trust to hold these investments on behalf of the children. The trust had a wide investment clause. The accounts were to be made to 30 April each year. When a beneficiary reached the age of 21 years, Mr Wema would transfer the share of the fund due to him/her. Mwanzo turned 21 years on 30 April 2020.

The balances on the accumulation fund for Mwanzo, Pili and Tatu as at 1 May 2019 were Sh. 415,800; Sh. 207,900 and Sh. 69,300 respectively. To that date, Mr. Wema had used accumulated income to purchase 5,775 ordinary shares of Sh.10 par value in Faida Ltd.

In the year to 30 April 2020 Sh.445,000 was received from capital investments and Sh.124,740 from accumulation investments. Maintenance payments were made as follows;

Kwanza	Sh. 154,000
Pili	Sh. 164,000
Tatu	Sh. 188,000

On 30 April 2020, the market value of the shares in the companies all listed on the stock exchange were as follows:

Kuza Ltd	Sh. 120 per share
Zidisha Ltd	Sh. 160 per share
Faida	Sh. 140 per share



Mwanzo was to receive 10,000 ordinary shares of Sh. 10 par value in Zidisha Ltd. and the balance due to him on capital would be made up of shares in Kuza Ltd. Out of the accumulated assets, Mwanzo was to receive Sh. 64,444 in cash and the balance in shares in Faida Ltd.

**Required:** For the period ended 30 April 2020, prepare;

- i. Trust capital account (4½ marks)
- ii. Accumulation account for the period ended (9½ marks)