



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEARSEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC 301: ADVANCED FINANCIAL ACCOUNTING 1

DATE:

TIME:

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) The following is the balance sheet of Hannah, Ivy, James and Kelvin as at Dec 31, 2021. The partners had shared profits and losses in the ratio of 6: 4: 1: 1 respectively.

Hannah, Ivy, James & Kelvin Partnership Balance Sheet as at 31 December 2020	
	Sh. "000"
Total Assets	<u>108,000</u>
Capital & Liabilities:	
Capital Accounts: Hannah	30,000
Ivy	30,000
James	20,000
Kelvin	10,000
Accounts Payable	<u>18,000</u>
	<u>108,000</u>

The partners decided to dissolve the business on a gradual/piecemeal basis.

Additional information:

- i) On March 1, 2022, some of the assets were sold for cash Sh. 50 million.
- ii) Dissolution expenses amounted to Sh. 800,000.

Required: Statement showing how cash realized would be distributed to the partners. (11 marks)

- b) The following information was extracted from the Ministry of Trade and Industry for the fiscal year ended 30 June 2021

	Sh. “000”
Transfer from exchequer	693,500
Inventory	30,000
Reserves	500,000
Accumulated surplus as at 1 July 2020	160,000
Receivables	50,000
Cash & Cash equivalents	245,000
Encumbrance payable	61,500
Accruals	143,000
Liabilities for long term employee benefits	56,000
Long term borrowings	326,400
Finance costs	28,000
Office administrative costs	355,000
Consumables used	112,400
Transfer to other ministries	133,600

Required: Statement of Financial Performance for the year ended 30 June, 2021. (9 marks)

- c) 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;

- i) Distribution Ratios (2 marks)
- ii) Primary distribution of Mwamba’s (deceased) estate. (4 marks)

- d) 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. **(2 marks)**
- ii) Describe the accounting treatment of events after the reporting period. **(2 marks)**

QUESTION TWO (TWENTY MARKS)

The following is the statement of financial position of Muli and Tolya who were equal partners in a wholesale business.

STATEMENT OF FINANCIAL POSITION AS AT 31 MAY 2021

	Sh. “000”	Sh. “000”
Non – Current Assets		
Motor Vehicle		320
Furniture		250
		570
Current Assets		
Inventory		1,140
Accounts receivables		690
Bank balance		390
		2,220
		2,790
Capital & Liabilities		
Capital		2,130
Current Liabilities		
Accounts Payable	640	
Accrued expenses	20	660
		2,790

On 1 June, 2021 the partnership business was taken over by Muto Limited on the following terms:

- i) All assets except cash at bank, and all liabilities except accrued expenses were to be taken over by the company.
- ii) Goodwill was valued at Sh.500,000.
- iii) The assets to be taken over were revalued as follows:

	Sh. “000”
Motor Vehicle	300,000
Furniture	100,000
Inventory	900,000
Accounts receivable	600,000

- iv) Creditors were taken over at their book values.
- v) The purchase consideration was to be satisfied by issue of 10,000 ordinary shares of Sh. 100 at 20% premium as fully paid and the balance in cash.
- vi) In addition to issuing shares to the partners, the company offered 7,000 ordinary shares of Sh. 100 at 20% premium for public subscription. All shares were taken up and paid for in full.
- vii) The company incurred preliminary expenses of Sh. 100,000 which was written off against share premium.

Required:

- a) Determine the purchase consideration (2 ½ marks)
- b) In the books of the partnership prepare;
 - i) Realization account. (4 marks)
 - ii) Partners’ Capital account (4 marks)
- c) In the books of Muto Limited prepare;
 - i) Business Purchase account (4 marks)
 - ii) Opening Statement of Financial Position as at 1 July 2021 (5 ½ marks)

QUESTION THREE (TWENTY MARKS)

David Makonde died on 1 January 2021 leaving the following estate.

	Sh.
Local SACCO deposits	480,660
Interest accrued on SACCO deposits to date	1,860
6000 ordinary shares of Sh. 20 each in ABC Ltd.	105,000
2000 ordinary shares of Sh. 20 each in Maji Ltd.	98,000
Balance at bank	562,520
Personal & Household effects	30,000
Sh. 1,000,000 12% government stocks	960,000
Freehold property	500,000

Debts due to be paid by David Makonde amounted to Sh. 12,800. Funeral expenses incurred upon his death amounted to Sh. 68,400.

David Makonde had in his will made the following bequests;

- i) To my wife Mrembo, household and personal effects and the sum of Sh. 100,000.
- ii) To my sons Arnold and Amnon the sum of Sh. 50,000 each

- iii) To my brother Jonathan, my holding of 1000 ordinary shares
- iv) To my sister Joystar, the sum of Sh. 40,000
- v) To my daughter Malaa, the sum of Sh. 70,000.

The following transactions took place during the four months ended to 30th April 2021.

- 31 January 2019: Received dividends of 10% for the year ended 31 December 2020 on shares in ABC Ltd. and half year's interest on the 12% Government stocks to date.
- 1 February 2019: Received the sums of Sh.495,000, Sh. 110,000 and Sh. 950,000 being net proceeds from the sale of freehold property, shares in ABC Ltd. and 12% Government stocks respectively.
- 2 March 2019: Paid capital tax amounting to Sh. 104,000 (for the year 2020)
- 31 March 2019: Withdrew balance of Sh. 490,560 from local SACCO deposits including interest accrued on SACCO deposits to date.
- 30 April 2019: Paid administration expenses of Sh. 26,040 (all capital) together with the debts due and funeral expenses.

You further ascertain the following;

- i) David Makonde was survived by his wife Mrembo, his son Arnold, daughter Malaa and brother Jonathan.
- ii) Amnon and Joystar died in a road accident in May 2020.
- iii) Amnon was survived by his widow Supra who had no children.
- iv) Joystar was survived by her two sons Embe and Dodo.

All the legacies were distributed on 30 April 2021.

Required:

- a) Estate capital account. (11 marks)
- b) Estate cashbook. (9 marks)

QUESTION FOUR (TWENTY MARKS)

- a) The following information was obtained from the Ministry of Finance for the fiscal year ended 30 June 2021.

	Budget Ksh. “million”	Actual Ksh. “million”
Receipts		
Revenue from taxes	600,000	552,000
Borrowings: National	400,000	380,000
Foreign	160,000	320,000
Grants: IMF and World Bank	80,000	100,000
Other Government agencies	60,000	64,000
Payments		
Education	600,000	536,000
Defence	120,000	80,000
Government transition planning costs	10,000	15,000
Health	201,000	120,000
Housing	180,000	220,000
Internal security	240,000	300,000
Others	160,000	240,000

Required:

Budget outturn for the Ministry of Finance for the year ended 30 June 2021 in accordance with the requirements of International Public Sector Accounting Standard (IPSAS) 24 (Presentation of budget information in financial statements).

QUESTION FIVE (TWENTY MARKS)

Bara Limited, a company quoted on the stock exchange, extracted the following trial balance as at 31 October 2021.

	Sh. “000”	Sh. “000”
Land & Buildings at cost	270,000	
Plant at cost	156,000	
Purchases	78,200	
Distribution costs	10,000	
Administration expenses	5,500	
Debenture interest paid	2,000	
Leased plant rental	22,000	
Dividend paid	15,000	
Inventory (1 November 2020)	37,800	
Accounts receivable	53,200	

Investments (Long term)	90,000	
Revenue		278,400
Income from investment		4,500
Ordinary shares of Sh. 10 each		150,000
Retained earnings		119,500
8% Debentures		50,000
Accumulated depreciation:		
Buildings		60,000
Plant		26,500
Accounts payable		33,400
Deferred tax payable		12,500
Bank balance		5,400
	739,700	739,700

Additional information:

- i) The land and Buildings were purchased on 1 November 2005. The cost of land was Sh. 70 million and no buildings have been purchased by Bara Ltd since then. However, on 1 November 2020, the land and buildings were professionally valued at Sh. 80 million and Sh.175 million respectively. The estimated useful life of the building before the revaluation was 50 years. However, the revaluation did not change the useful life of the buildings. Plant is depreciated at 15% per annum using the reducing balance method. Depreciation is to be included under cost of sales in the income statement.
- ii) On 1 November 2020, Bara Ltd entered into a 5 year lease agreement for an item of plant. This item had an estimated useful life of five years. The annual rental which was payable in advance with effect from 1 November 2020 was Sh. 22 million. The fair value of the plant is Sh. 92 million and the implicit interest rate is 10% per annum.
- iii) The 8% debentures were issued on 1 January 2021 and interest is payable six months in arrears.
- iv) The income tax for the year to 31 October, 2021 was estimated at Sh. 28.3 million. The deferred tax provision as at 31 October 2021 was increased to Sh. 14.1 million.
- v) Inventories were valued at Sh.43.2 million as at 31 October, 2021.

Required:

Prepare in accordance with International Financial Reporting Standards (IFRSs)

- a) Income statement for the year ended 31 October, 2021 (5 marks)
- b) Statement of changes in equity for the year ended 31 October 2021. (6 ½ marks)
- c) Statement of financial position as at 31 October, 2021. (8 ½ marks)