KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING I

DATE: **Friday 24th November 2017** **TIME: 8.00a.m -10.00a.m**

INSRUCTIONS- ANSWER ALL QUESTIONS

QUESTION ONE

The following trial balance was extracted from the books of Venus Limited, a company quoted on the securities exchange, as at 31st March 2016.

	Sh "million"	Sh "million"
Land and buildings	1,800	
Machinery	840	
Equipment	320	
Accumulated depreciation(1 April 2015):Buildings		360
Machinery		416
Equipment		70
Software	100	
Inventory (1 April 2015)	349	
Administrative expenses	29	
8% loan stock		200
Financial assets at fair value(long term)	180	
Retained earnings		608
Salaries and wages	298	
Maintenance of machinery	31	
Postage and stationery	18	
6% redeemable preference shares		400
Ordinary shares (Sh.20 par value)		1,000
Share premium		30
Interest on 8% loan stock	8	
Disposal of machinery		29
Rent and rates	282	
Purchases and sales	2,148	3,739
Dividends paid	50	
Accounts receivable and accounts payable	400	341
Allowance for doubtful debts		8
Bank and cash balances	37	
Directors' remuneration	122	
Investment income		20

*INVOLVEMENT IN ANY **EXAMINATION IRREGULARITY** SHALL LEAD TO **DISCONTINUATION***

Advertising	149	
Carriage inwards	34	
Carriage outwards	26	
	7,221	7,221

Additional information:

1. Inventory as at 31 March 2016 was valued at Sh.504 million while the fair value of financial assets was sh.185 million.
2. Software was acquired during the year and is being amortised over two years. Amortisation is classified as a cost of sales item.
3. Accrued administrative expenses and salaries and wages as at 31 March 2016 amounted to Sh.11 million and Sh.42 million respectively while prepaid rent and rates amounted to Sh.12 million.
4. A machine was sold on 1 April 2015 for Sh.29 million. The initial cost of the machine was sh.60 million and the accumulated depreciation was sh.16 million.
5. Buildings are depreciated at 2% per annum using straight line method. Land comprises a third of the cost of land and buildings.Machinery and equipment are depreciated at 30% and 20% per annum respectively, using the reducing balance method.
6. Allowance for doudtful debts is to be increased by Sh.4 million.
7. Income tax on the current year's profits is estimated at sh,58 million. Administrative expenses include an under provision of tax relating to the previous year amounting to Sh.3 million.
8. Audit fee amounting to Sh.25 million is to be provided.
9. Expenses are to be apportioned as follows:

	Cost of sales	**Administrative expenses**	**Distribution cost**
	%	%	%
Salaries and wages	40	50	10
Depreciation of buildings	50	25	25
Depreciation of equipment	-	100	-
Rent and rates	40	30	30

Required:

(a) A statement of comprehensive income for the year ended 31 march 2016. (10 marks)
(b) A statement of financial position as at 31March 2016. (10 marks)

QUESTION TWO

The following was the statement of financial position of Prince and Queen as on 31st December 2016.

		Sh."000"	Sh."000"
Non- current assets			
Plant and machinery			560,000
Motor vehicles			240,000
Furniture			60,000
Investments			140,000
			1,000,000
Current assets			
Inventory		100,000	
Accounts receivable		50,000	
Cash at bank		30,000	180,000
			1,180,000
Capital : Prince		400,000	
Queen		300,000	700,000
Current accounts : Prince	120,000		
Queen	(30,000)		90,000
Non-current Liabilities			
Loan			300,000
Current Liabilities			
Accounts payable			90,000
			1,180,000

The partnership firm was dissolved on 31st December 2016.The additional information provided by the partners was as under:

(i) Prince agreed to take furniture at the value of Sh.50,000,000.He also agreed to settle the loan.

(ii) The other assets were realized as follows:

	Sh"000"
Plant and machinery	520,000
Motor vehicles	260,000
Investments	160,000
Inventory	90,000
Accounts receivable	44,000

(iii) The expenses on dissolution amounted to sh.4,000,000.

(iv) The accounts payable were settled at Sh.84,000,000.

(v) The profit and loss sharing ratios of Prince and Queen were 3:2 respectively.

Required:

(a) Realisation account (8 marks)
(b) Cashbook (6 marks)
(c) Partners' capital accounts in columnar form.(6 marks)

QUESTION THREE

Mr. Masaduku died on 1st February 2015, leaving the following estates:

	Sh.
Building society deposit	100,840
Interest accrued to date	780
Balance at bank	99,300
Personal chattles	72,000
Freehold house	480,000
Sh.120,000, 10% Government stock	840,000
14,000 ordinary shares of sh10 each in Kenya Breweries	200,000
6,000 ordinary shares of Sh.10 each in B.A.T(K) Ltd	60,000
	1,852,920
Debts and funeral expenses	(20,920)
	1,832,000

His will included the following legacies:

(i) To his wife, Nduku the freehold house, personal chattles, the ordinary shares in both Breweries and B.A.T and the sum of Sh.300,000.
(ii) To his daughter Susan, his land at Ngong and the sum of Sh.432,000
(iii) To his sons George, Haron and Fredrick the sum of Sh.240,000 each.
(iv) To his sister Caroline the sum of Sh.200,000.
(v) To his friend Charles the sum of Sh.48,000.
(vi) To his brother Victor his holding of sh.100,000 saving bond. His will also directed that the residue and any income arising during the administration of the estate should go to his wife Nduku. The land at Ngong was sold for Sh,300,000 in 2014 and the savings bonds encashed in 2015. His sister Caroline had died in 2013 and his son Haron died in 2012, leaving the sons John and Philip. All beneficiaries are of full age.

The following transactions took place during the three months period ended 30th April 2016.

February 28-Received dividends of Sh.1 per share for the year ended 31 December 2015 on shares in Breweries Ltd.

March 30- Received proceeds of sale of Government stock of Sh. 820,000.

April 30 Withdrew balance of Sh.103, 140 from building society account including interest to date. Paid debts and funeral expenses. Distributed all legacies and completed the administration of the estate.

Required

(a) Estate capital (6 marks)
(b) Distribution statement showing the final distribution of Masuduku's estate.(10 marks)

QUESTION FOUR

(a) As perIAS 12 explain the following terms :

(i) Accounting profit (2 marks)

(ii) Taxable profit (2 marks)

(iii) Current tax (2 marks)

(iv) Deferred tax liabilities (2 marks)

(v) Deferred tax assets (2 marks)

(b)Explain the benefits of preparing financial statements using the Current Purchasing Power Approach (4 marks)

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