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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DAC 1505: ADVANCED FINANCIAL ACCOUNTING

Date: 9TH AUGUST 2023

Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain the reasons for payment of goodwill for a going concern business entity. (5 Marks)
- b) Identify and explain the ethical requirements of a professional accountant as per the IFAC code of ethics. (5 Marks)
- c) Highlight the contents of a partnership agreement. (5 Marks)
- d) List THREE features of single entry system. (5 Marks)
- e) Preparing a trial balance of Nyota ltd as at 31st December 2022 it was observed that the total debits exceeded the total credits by shs 23,800. After audit the following errors were discovered:
- i) Sales had been overcast by shs 1,500.
 - ii) Return outwards account had not been credited with amount of shs 6,132.
 - iii) A payment of a debtor of shs 15,000 by a direct bank transfer had not been entered in the debtors account.
 - iv) A cash purchase of shs 232 had been recorded in the cash book only.
 - v) Shs 2,200 received from a debtor had been debited to his account.

Required:

- i. Journal entries to correct the errors. (5 Marks)
- ii. Suspense account duly balanced. (5 Marks)

QUESTION TWO (20 MARKS)

The following trial balance has been extracted from the books of Ben Traders at the close of business on 31 December 2021._

	Dr	Cr
	Sh	Sh
Sales		1,636,350
Allowance for doubtful debts		5,985
Discounts	13,800	10,500
Other operating expenses	299,400	
Salaries and wages	231,150	
Cash in hand	39,225	
Cash in bank	121,950	
Capital		990,540
Purchases	814,125	
Carriages	98,325	
Returns	33,675	80,400
Inventory 1 January 2021	93,900	
Trade receivables and payables	159,000	119,025
Motor vehicle	900,000	
Provision for depreciation on Motor vehicle at 01 January 2021		324,000
Furniture and fitting -at cost	724,500	
Provision for depreciation on furniture and fittings at 01 January 2021		362,250
	3,529,050	3,529,050

Additional Information

- Inventory at at 30 June 2021 was valued at Sh 106,500
- Depreciation was as follows: Furniture and fittings 10% straight line
: Motor vehicles 20% reducing balance
- Included in Other operating expenses are prepaid insurance of Sh 5,400 and electricity owing amounting to Sh 7,650
- Carriages include carriage on purchases amounting to Sh 70,950
- Allowances for bad and doubtful debts was adjusted to 3% of the trade receivables balance at year end

Required

- i) Income statement for the year ended 31 December 2021.
 ii) Statement of financial position as at 31 December 2021.

(10 Marks)
 (10 Marks)

QUESTION THREE (20 MARKS)

The following Trial Balance relate to Mwhiko Manufacturers

	Dr	Cr
	Sh	Sh
Stock of raw materials 1.1.2021	210,000	
Stock of finished goods 1.1.2021	389,000	
Work in progress 1.1.2021	135,000	
Direct Wages	0	1,800,00
Factory Indirect wages	0	1,450,00
Carriage inwards (on raw materials)	35,000	
Purchase of raw materials	0	3,700,00
Factory Machinery (cost 3,000,000)	0	2,400,00
Office Equipment (Cost 300,000)	240,000	
General factory expenses	310,000	
Lighting	75,000	
Factory power	137,000	
Administrative salaries	440,000	
Sales Representative salaries	300,000	
Commission on sales	115,000	
Rent	120,000	
Insurance	42,000	
General administrative expenses	134,000	
Bank charges	23,000	
Discount allowed	48,000	
Carriage outwards	59,000	
Sales		10,150,000
Debtors and creditors	0	1,423,00
Cash at Bank	568,000	
Cash in Hand	15,000	
Drawings	200,000	
Capital 1.1.2021		2,968,000
	14,368,000	14,368,000

Additional Information

- Stock of Raw Materials Sh 240,000, Stock of finished goods Sh 400,000 and work in progress Sh 150,000.
- Lighting, rent and insurance are to be apportioned: factory 5/6th, administration 1/6th.
- Depreciation on factory machinery and office equipment at 10% per annum on cost

Required

- i. Prepare a manufacturing account for the year ended 31 December 2021. (10 Marks)
- ii. Income statement for the year ended 31 December 2021. (10 Marks)

QUESTION FOUR (20 MARKS)

Polly and Jane are in partnership sharing profit at a ratio of 60%:40% respectively. The following trial balance was extracted at 31 December 2021

	Dr	Cr
	Sh	Sh
Office Equipment at cost	552,000	
Motor vehicle at cost	1,284,000	
Provision for Depreciation at 1.1.2021		
Office equipment		216,000
Motor vehicle		768,000
Inventory at 1.1.2021	2,304,600	
Accounts receivable and accounts payable	2,516,400	1,932,960
Cash at Bank	127,080	
Cash in hand	19,020	
Sales		10,824,000
Purchases	8,200,800	
Salaries	1,644,000	
Office expenses	127,800	
Discount allowed	18,720	
Current Accounts 1.1.2021		
Polly		442,920
Jane		420,540
Capital accounts		
Polly		3,000,000
Jane		1,200,000
Drawings		
Polly	1,050,000	
Jane	960,000	
	18,804,420	18,804,420

Additional Information

- Inventory at 31 December 2021 – Sh 2,478,720
- Office expenses owing Sh. 14,400
- Depreciation on cost : Motor vehicle 25% straight line
Office equipment 20% straight line
- Interest on capital – 5%
- Interest on drawings – 2%

Required

- i.) Income Statement and appropriation account for the year ending 31 December 2021. (10 Marks)

- ii.) Partners Current account. (5 Marks)
- iii.) Statement of financial position as at 31st December 2021. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Identify and explain three main differences between cash book and bank statement. (8 Marks)
- b) During the year ended 2022 the bank statement of Aby Enterprises showed a balance of Sh 862,200 while the cash book showed a debit balance of Sh 895,000. On further investigation the following was discovered.
- The bank statement had bank charges worth Sh. 5,000, Interest charges of Sh.14,500 and direct debits of Sh. 35,000 which not posted into the cash book
 - Cheques given to suppliers worth Sh 42,500 which had not been presented to the bank.
 - Cheques received from customers worth Sh 21,700 which had not been banked.
 - A cheque received from the customer of Sh 9,800 had been posted in the cash book as Sh 8,900. The correct amount appears in the bank statement.

Required

- i.) Updated cash book. (4 Marks)
- ii.) Bank reconciliation statement. (4 Marks)
- c) Highlight the causes of errors that make the Trial balance not to balance. (4 Marks)