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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 11th December, 2019
Time: 11.00am – 1.00pm

KAC 201 - INTERMEDIATE ACCOUNTING II

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain the reasons why small businesses maintain single entry and incomplete records. (5 Marks)
- b) Differentiate between a long term loan and a debenture (6 Marks)
- c) Highlight the salient features of the Garner Vs Murray rule (4 Marks)
- d) Gravel Extractors Ltd acquired the rights to remove gravel deposits from land owned by A. Farmer. The agreement provided for
- The payment of a royalty of Shs400 per ton of gravel extracted
 - A minimum payment of Shs200000 per annum
 - Recoupment rights for short workings are to expire at the end of year 3.

During the first four years of the contract the following quantities were extracted.

<u>Period</u>	<u>Tons extracted</u>
Year 1	400
Year 2	480
Year 3	540
Year4	560

The company's accounting year ends on 31st December.

Required

- i) the bank account (4 Marks)
- ii) short-workings account (3 Marks)
- iii) royalty account (4 Marks)
- iv) landlord account (4 Marks)

QUESTION TWO (20 MARKS)

- a) In relation to Kenyan Tax law explain the basic sources of differences between financial accounting profit and taxable profit. **(8 Marks)**
- b) The trial balance of Allways Books Ltd revealed a difference in the books. In order that the errors may be located it was decided to prepare purchases and sales ledger control accounts.
- | | |
|--|-----------|
| ○ Purchases ledger balances Jan 1 | 194,200 |
| ○ Sales ledger balances Jan 1 | 282,270 |
| <u>Totals of the year 2011</u> | |
| ○ Purchases journal | 2,104,160 |
| ○ Sales journal | 3,058,240 |
| ○ Returns outwards journal | 14,520 |
| ○ Returns inwards journal | 36,180 |
| ○ Cheques paid to suppliers | 2,054,190 |
| ○ Petty cash paid to suppliers | 620 |
| ○ Cheques and cash received from customers | 2,873,170 |
| ○ Discounts allowed | 41,020 |
| ○ Discounts received | 17,210 |
| ○ Bal. on the sales ledger set off against balances in the purchase ledger | 6,400 |

On December 31st the list of balances from the purchases ledger showed a total of Shs202, 100 and that on the sales ledger a total of Shs383, 740.

Required:

Prepare the relevant control accounts to show where an error may have been made.

(12 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss the use of ratios as a tool for financial analysis of a business organisation. **(12 Marks)**
- b) Sukari Ltd had a profit before tax of Kshs150 million for the year ended 31st December 2018. The profit figure had taken into account the following items: depreciation Shs12million, profit on sale of the Managing Directors car Shs1.5 million, general provisions for bad debts Shs500000. The Finance Director has consulted Kenya Revenue Authority and capital allowance agreed on at Shs25 million. The corporation tax rate is 30%. Installment tax already paid to KRA is shs13 million.

Required:

Compute the tax payable to KRA based on the above facts.

(8 Marks)

QUESTION FOUR (20 MARKS)

The following information was obtained from Kambiti (a farmer from Mwihoko) on his farming activities for the year ended 31 March 2015:

	Opening stock Shs.	Closing stock Shs.
Crops	30,000	37,500
Group crops	22,500	33,750
Seeds	15,000	18,750
Cattle	562,500	787,500
Cattle food	75,000	41,250
Poultry	67,500	101,250
Poultry food	7,500	15,000
Fertilizers	37,500	22,500
Purchases during the year:		
Poultry		
Seeds	112,500	
Cattle	11,250	
Cattle food	300,000	
Fertilizers	105,000	
Poultry food	26,250	
Sales during the year:		
Butter	11,250	
Milk	67,500	
Eggs	97,500	
Crops	157,500	
Flowers	11,250	
Fruits	30,000	
Cattle	270,000	
Poultry	45,000	
Vegetables	37,500	
Expenses during the year:		
Wages	176,250	
Insurance	11,250	
Depreciation	15,000	
Repairs	9,000	
Consumption of farm products by proprietor		
Butter	3,000	
Milk	18,750	
Eggs	3,750	
Vegetables	4,500	
Poultry	1,500	
Fruits	2,250	

Required:

From the information given above, prepare the following accounts for Kambiti for the year ended 31 March 2015:

- | | | |
|-------|-----------------|------------------|
| (i) | Crop account | (7 Marks) |
| (ii) | Dairy account | (7 Marks) |
| (iii) | Poultry account | (6 Marks) |

QUESTION FIVE (20 MARKS)

A, B, and C are partners with capital amounts sh.200000, 180000 and 120,000 respectively. The agreement provides as follows:

- ✓ Interest on capital at 5% per annum.
- ✓ No interest charged on drawings
- ✓ Resultant profits or losses are to be shared between A,B and C in the ratio 3:2:1.

The following Trial Balance of the partnership was extracted on the 31st December 2018.

	DR. Shs.	CR. Shs
Capital: A		200,000
B		180,000
C		120,000
Drawings: A	25,000	
B	25,000	
C	10,000	
Current Accounts: A		8,800
B		4,200
C		2,000
Plant and Machinery	155,000	
Sundry Debtors	347,800	
Purchases	1,263,950	
Sales		1,962,150
Wages	245,850	
Returns inward	20,750	
Commission Received		17,200
Rent	26,100	
Stock 1 st January 2018	448,100	
Salaries	65,000	
Provision for bad debts		21,650
Bad Debts written off	18,100	
Sundry Creditors		168,800
Furniture & Fittings	9,700	
Cash at Bank	15,000	
Travelling Expenses	<u>9,450</u>	
	<u>2,684,800</u>	<u>2,684,800</u>

You are given the following information at the close of the year;

- i). Stock on 31st December 2018 was sh.421, 250
- ii). Depreciation on non-current assets: Plant and Machinery 10%, Furniture and fittings 5%
- iii). Provision for Bad and Doubtful Debts to be maintained at 5% of the closing Debtors.

Required.

- a) Income statement for the year ended 31st December 2018 **(8 marks)**
- b) Appropriation Account for the year **(7 marks)**
- c) Balance sheet as at 31st December 2018. **(5 marks)**