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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FOR THE DIPLOMA IN ACCOUNTING**  
**DAC IV- MAY -AUGUST 2022**  
**DAC 1505 – ADVANCED FINANCIAL ACCOUNTING**

**Lecturer- CEASAR CHEMAI**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Globalization has led to business to invest in countries other than their home countries which has led many countries to adopt International Financial reporting standards (IFRS). What are the advantages of adopting IAS/IFRS as a basis of preparation of financial statements? (4 Marks)
- b) Outline the areas in partnership business that should be covered by the partnership agreement (6 marks)
- c) In accounting for non-profit making organization, highlight features of income and expenditure account (5 marks)
- d) Douglas prepared a trial balance which did not balance. The credit side was less by Sh 2,230,000 and was covered by a suspense account. On further investigation he discovered that;
- Purchases day book totals had been overstated by Sh 1,493,000
  - A cheque of Sh 2,100,000 to purchase pick up had been posted to cash book but not posted to motor vehicle account.
  - Totals of the sales book had been under-casted by Sh 2,837,000

Required

- i) Prepare journal entries to correct the errors (3 marks)
- ii) Prepare Suspense account to clear the difference (4 marks)
- e) Members of Institute Certified public Accountants of Kenya are required to adhere to code of ethics for professional accountants code developed by IFAC to protect public interest. Identify and explain the four code of ethics for professional accountants. (8 marks)

## **QUESTION TWO (20 MARKS)**

Mary and Faith are in partnership sharing profit and losses in the ration 3:2. The following is the summarised trial balance as at 31 December 2021.

	Sh	Sh
Building	7,900,000	
Fixtures	170,000	
Accounts Receivable	3,382,000	
Accounts Payable		2,830,000
Accruals		47,000
Cash at Bank	303,000	
Net profit		5,673,000
Closing Inventory	3,710,000	
Capital: Mary		5,000,000
Faith		3,750,000
Current Accounts: Mary		205,000
Faith		60,000
Drawings: Mary	1,110,000	
Faith	990,000	
	<b>17,565,000</b>	<b>17,565,000</b>

### Additional Information

- a) Partnership Salary Mary Sh 1,500,000
- b) Interest on drawings Mary Sh 45,000, Faith Sh 30,000
- c) Interest on capital account balances at 5%.

### Required

- i. Profit and loss appropriation account (5 marks)
- ii. Partners Current Accounts (5 marks)
- iii. Statement of financial position (10 marks)

### **QUESTION THREE (20 MARKS)**

Roni Wholesaler has kept records of his business transactions in a single-entry form. His bank account for the year is as follows;

Bank account			
	Sh		Sh
Balance 1.7.20	8,280	Payment to creditors	570,600
Receipt from Debtors	847,800	Rent	28,800
		Insurance	17,100
		Drawings	102,600
		Sundry expenses	19,680
		Balance c/d 30.06.21	117,300
	<b>856,080</b>		<b>856,080</b>

Cash paid were

	Sh
Cash balance at 1.7.20	1,746
Sundry Expenses	1,620
Payments to trade payables	11,790
Cash sale	13,860

The following information was also available

	30.06.20	30.06.21
	Sh	Sh
Accounts payable	65,700	72,900
Accounts receivable	82,800	102,600
Fixtures (book value)	49,500	41,400
Inventory	217,800	243,900

#### **Required**

- i) Statement of affairs as at 1 July 2020 (5 marks)
- ii) Income statement for the year ended 30 June 2021 (8 marks)
- iii) Statement of financial position as at 30 June 2021 (7 Marks)

## **QUESTION FOUR (20 MARKS)**

The following summary of the receipts and payments were obtained from Salgaar Rotary club during the year ended 31 December 2021

Salgaar Rotary club			
Receipt and Payment Account for the year ended 31 December 2021			
<b>Receipts</b>	<b>Sh</b>	<b>Payments</b>	<b>Sh</b>
Cash and Balance b/d	157,500	Salaries and wages	240,000
Sale of competition ticket	327,750	Rent	360,000
Members subscription	1,490,250	Speaker expenses	20,000
Donations received	400,000	Donations to charities	800,000
		Prizes for competitions	202,500
		Other office expenses	205,000
		Balance c/d	548,000
	<u>2,375,500</u>		<u>2,375,500</u>

The following valuation are also available

	31 December 2020	31 December 2021
	Sh	Sh
Owing to suppliers of competition prizes	43,500	51,000
Inventory of competition prizes	28,500	34,500

Equipment was valued at Sh 450,000 on 1 January 2021. The depreciation is charged at 10%.

### **Required**

- i. Calculate the value of accumulated Fund as at 1 January 2021. (4 marks)
- ii. Income statement for Competition prizes (5 marks)
- iii. Income and Expenditure account 31 December 2021 (6 marks)
- iv. Statement of Financial position as at 31 December 2021 (5 marks)

#### **QUESTION FOUR (20 MARKS)**

The following trial balance has been extracted from ledger of Abdi wholesalers as at 30 June 2021

	Dr	Cr
	Sh	Sh
Sales		2,070,000
Purchases	1,344,500	
Rent, rates and insurance	99,000	
Postage and stationery	45,000	
Advertising	19,950	
Salaries and wages	396,300	
Bad debts	13,500	
Allowances for doubtful debts		4,500
Accounts receivable	181,500	
Accounts payable		97,500
Cash in hand	10,800	
Cash at bank	90,450	
Drawings	80,500	
Inventory 1 July 2020	178,500	
Furniture and Equipment		
• at cost	870,000	
• Accumulated depreciation 1 July 2020		348,000
Capital		810,000
	<b>3,330,000</b>	<b>3,330,000</b>

#### **Additional Information**

- i. Rent is accrued Sh 7,500
- ii. Rates have been prepaid Sh 9,000
- iii. Equipment is depreciated at 10% p a on reducing balance basis
- iv. Allowance for doubtful debts is to be provided at 3% of receivable
- v. Inventory at 30 June 2021 was Sh 202,500

#### **Required**

- i) Income statement for the year ended 30 June 2021 (11 marks)
- ii) Statement of financial position as at 30 June 2021 (9 marks)