



KABARAK

UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT423

COURSE TITLE: ACCOUNTING FOR PUBLIC AGENCIES

STREAM: Y4S2

DAY: FRIDAY

TIME: 9.00 – 1100A.M.

DATE: 13/08/2010

INSTRUCTIONS

- Answer question **ONE** and any other **TWO** questions

PLEASE TURN OVER

QUESTION ONE (compulsory)

Njagi and Otieno are partners running a glass making plant and sharing profit and losses in the ratio 3:2 respectively. They have provided the following profit and loss account, note and explanations for the year ended 31st December 2008.

	Kshs
Income:	
Sales	4,882,000
Sales of old plant (Kshs. 30,750) and lorry (Kshs. 150,000)	180,750
Refund of VAT	21,250
Post office savings bank interest	5,750
Dividends	42,500
	5,132,250
Expenses:	
Purchases	1,491,500
Wages	408,750
National Hospital Insurance Fund(NHIF)	' 35,500
Rent	620,500
Lorry maintenance expenses	1,165,750
Salaries to partners	1,200,000
Otieno 's household expenses	86,250
Repairs and maintenance of plant	233,750
Advertising	75,000
Insurance premiums	156,750
Interest on loan	125,000
Subscriptions: To glass makers association	25,000
Donations to Othaya bursary fund	8,000
Legal expenses	89,000
Income tax paid	298,000
General expenses	86,250
Bad debts	111,500
Water and electricity	61,750
Depreciation: Furniture and fittings	8,000
Plant	<u>11,500</u>
Total expenses	6,297,750
Net loss for the year	<u>(1,165,500)</u>

Additional information

1. Njagi and Otieno used Glass worth Kshs. 65,000 for their private purposes. This amount should be apportioned to the partners in their profit sharing ratios.
2. Lorry maintenance expenses include, cost -of new lorry Kshs. 750,000 and depreciation charge for the year Kshs. 162,500.
3. Annual rent for Njagi's house is Kshs. 300,000. This was paid for by the business.
4. During the year ended 31st December 2008 new plant was acquired for Kshs. 200,000. This has been included hi the repairs and maintenance of the plant.
5. Njagi's personal car insurance was paid for by the business. It amount to Kshs. 90,000
6. Interest on loan and legal expenses relate to Otieno's mortgage loan.
7. Bad debts were made up of Kshs. 50,000 specific provision and Kshs. 61,500 general provision.
8. written down values as at 31st December 2007 were as follows: Furniture and fittings Kshs. 49,500, motor vehicle Kshs. 107,000 and plant Kshs. 9,000
9. Otieno and Njagi received salaries of Kshs. 800,000 and Kshs. 400,000 respectively

Required

- a) The adjusted profit or loss for tax purposes for the year ended 31st December 2008
(16 marks)
- b) Division of profit (loss) between the partners. (4 marks)

(Total: 20 marks)

QUESTION TWO (compulsory)

The following trial balance was extracted from the books of Mema Limited at 31st December 2008.

	SHS	SHS
Share capital		2,000,000
Share premium		1,000,000
12%- debentures		2,250,000
Fixed assets at cost (2007)		
Factory buildings	4,350,000	
Machinery & equipment (fixed)	600,000	
Motor lorries	2,250,000	
Provision for depreciation		
Factory building		360,000
Machinery and equipment		300,000
Motor lorries		1,070,000
Goodwill (net)	240,000	
Sales		7,916,000
Discounts allowed	142,000	
Discounts received		98,000
Bank account	56,000	
Purchases	4,582,000	
Debtors and creditors	825,000	314,000
Provision for doubtful debts, 1 st January 2003		530,000
Bad debts	45,000	
Depreciation expenses	570,000	
Wages and salaries	684,000	
Goodwill amortization expense	6,000	
Administrative expenses	328,000	
Research and development expenditure	96,000	
Debenture interest paid	135,000	
Directors remuneration	400,000	
Installment tax paid	330,000	
Retained profits		935,000
Stocks at 1 st January 2008	1,134,000	
	16,733,000	16,733,000

Notes

1. Accrued expenses not included for wages and administrative expenses are

- Kshs. 15,000 and Kshs. 9,000 respectively.
2. Stock held at 31st December 2008 amounted to Kshs. 1,403,000 at cost and 1,498,000 at the realizable value.
 3. The factory was brought in to use on 1st January 2007. The directors were not aware of the need to claim capital allowances and none have been made to date.
 4. Half years' debenture interest is still outstanding
 5. Research and development expenditure is to be written off.
 6. A tax of Kshs. 420,000 was paid for the year of income 2007 upon .final assessment.

Required

Compute the taxable profits (loss) of Mema Limited for the year of income 2003 and the tax payable there on. **(30 marks)**

QUESTION THREE

- (a) Explain the accounting procedures for Value Added Tax (VAT) especially in-put and out-put tax an appropriate example. **(8 marks)**
- (b) Discuss the benefits and shortcomings of Value Added Tax system in Kenya

(12 marks)

QUESTION FOUR

Discuss the various capital allowances given to investors to investors in Kenya and show the reasons government allows these allowances. **(20marks)**