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**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF EDUCATION**

**(ARTS)**

**1ST YEAR 2ND SEMESTER 2013/2014 ACADEMIC YEAR**

**REGULAR**

**COURSE CODE: ABA 109**

**COURSE TITLE: INTRODUCTION TO ACCOUNTING II**

**EXAM VENUE: CR STREAM: (BEd art )**

**DATE: 20/8/14 EXAM SESSION: 2.00 – 4.00 PM**

**TIME: 2 HOURS**

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**Instructions:**

1. **Answer question 1 (compulsory) and any other 2 questions.**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

**QUESTION ONE (COMPULSORY)**

1. (i) State and briefly explain any two desirable qualitative characteristics of good accounting information. (4 marks)

(ii) Explain the meaning of the following accounting concepts:

1. Accrual concept
2. Consistency concept (4 marks)
3. The profit reported by a business for the past four years ending 2013 is as follows:

|  |  |
| --- | --- |
| **Year** | **Profit**  **Kshs** |
| 2010 | 720,000 |
| 2011 | 960,000 |
| 2012 | 1,080,000 |
| 2013 | 840,000 |

**Required:**

Determine goodwill using the average profit method (4 marks)

1. State any two differences between a consignment and a sale. (4 marks)
2. Onyango Lumumba & Patrick’s Advocates keeps all moneys of their clients in a separate bank account which is maintained for that purpose. At the end of each month they make any necessary transfers from “clients’ accounts to office account”. On 1July 2013 the balance at bank in the office account was Kshs 750,000 and the balance on clients’ account was Kshs 1,055,000 made up as follows:

|  |  |
| --- | --- |
| **Client** | **Kshs** |
| Askali Kamau | 50,000 |
| Karol Trust | 115,000 |
| Njega & Co. | 350,000 |
| Jacob & Co. Ltd | 540,000 |
|  | **1,055,000** |

The receipts and payments for the month of July were as follows:

(All receipts were banked daily)

|  |  |  |
| --- | --- | --- |
| July | 2 | Paid Kshs 5,000 insurance premium for Askali Kamau |
|  | 3 | Paid Kshs 9,000 for repairs to premises rented by Jedi Auma under Karol Trust |
|  | 4 | Paid Kshs 9,000 for advertisements for Jacobs & Co. Ltd. |
|  | 7 | Authorized to draw Kshs 35,000 on account of costs for Karol Trust |
|  | 9 | Authorized to draw Kshs 120,00 on account of Jacobs & Co. Ltd. |
|  | 14 | Received from Jedi Auma Kshs 44,000 under Karol Trust. |
|  | 16 | At the request of Njoroge & Co., paid Kshs 10,000 Registration fees |
|  | 30 | Paid salaries Kshs 240,000 and drew petty cash Kshs 20,000 |

**Required:**

Write up the cash book and clients’ ledger accounts. (10 marks)

**QUESTION TWO**

1. The average reported profit reported by a business with a capital employed of **Kshs 1,800,000** was **Kshs 240,000.** If the normal rate of return is **10%,** calculate goodwill assuming a two-year purchase. (2 marks)
2. Lavender Achieng’ and Nancy Nyabuto own a grocery shop. Their first financial year ended on 31st December 2013. The following balances were taken from the books on that date:

|  |  |  |
| --- | --- | --- |
|  | **Achieng’** | **Nyabuto** |
| **Kshs** | **Kshs** |
| Capital a/c | 60,000 | 48,000 |
| Current a/c | 54,000 Cr | 1,400 Dr |
| Partnership salaries | 9,000 | 6,000 |
| Drawings | 12,000 | 13,400 |
| Interest on drawings | 840 | 650 |
| Interest on capital | 6,000 | 4,800 |
| Loan interest | - | 3,400 |

The firm’s net profit for the year was **Kshs 32,840**. Interest on capital is to be allowed at **10%** per year. Profits and losses are to be shared according to capital contribution ratio.

**Required:**

From the information above prepare the firm’s appropriation account and the partner’s current account. (6 marks)

1. On 1st September 2013, Kipng’etich of Kericho consigned to Franklin of London 50 bales of tea merchandise costing him**Kshs 6,000,000.** Kipng’etichalso incurred expenses amounting **Kshs 30,000** relating to carriage of goods to the port. Franklin paid freight at **€17.5** per bale, dock dues and landing charges **€450**, marine insurance **€600**, brokerage was **2%** of sales and commission **2%.** On 30th December 2013, Franklin completed sales of the whole consignment realizing **75,000**. He settled the net proceeds by a bill of exchange at three months which was duly met on maturity.(the prevailing exchange rate was**€1.0 = Kshs 120**)

**Required:**

Write the ledger accounts in the books of Kipng’etich to record the above transactions. . (12 marks)

**QUESTION THREE**

The following is the income and expenditure account for Uzima Charitable Hospital for the year ended 31 July 2013:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Expenditure** | | **Kshs** | **Income** | **Kshs** |
| Medicine used | | 5,996,000 | Subscriptions | 11,200,000 |
| Honoraria to doctors | | 2,400,000 | Donations | 1,900,000 |
| Salaries | | 5,500,000 | Income from annual walk | 2,200,000 |
| Electricity and water | | 95,000 | Income from film show | 2,290,000 |
| Rent | | 1,200,000 |  |  |
| Depreciation: | |  |  |  |
| Furniture and fixtures | 420,000 |  |  |
| Equipment | 650,000 |  |  |
| Film show expenses | | 56,000 |  |  |
| Annual walk expenses | | 100,000 |  |  |
| Printing expenses | | 220,000 |  |  |
| Surplus | | 953,000 |  |  |
|  | | **17,590,000** |  | **17,590,000** |

**Additional information:**

|  |  |  |
| --- | --- | --- |
|  | **1st August 2012**  **Kshs** | **31st July 2013**  **Kshs** |
| Subscriptions due | 24,000 | 32,000 |
| Subscriptions received in advance | 12,800 | 20,000 |
| Electricity and water bills | 18,400 | 23,000 |
| Furniture and fixtures at net book value | 4,200,000 | 3,780,000 |
| Equipment at net book value | 2,320,000 | 2,780,000 |
| Land | - | 2,000,000 |
| Cash balance | 68,000 | 32,000 |
| Bank balance | 1,800,000 | ? |
| Stock of medicine | 1,564,000 | 1,950,000 |

**Required:**

1. Subscriptions account for the year ended 31st July 2013. (4 marks)
2. Receipts and payments accounts for the year ended 31st July 2013. (10 marks)
3. Statement of financial position as at 31st July 2013. (6 marks)

**QUESTION FOUR**

The following balances were extracted from the books of Kasaya Limited as at 30th September 2010.

|  |  |
| --- | --- |
|  | **Kshs ‘000’** |
| Land and buildings (net book value) | 25,000 |
| Plant and machinery (net book value) | 8,000 |
| Motor vehicles (net book value) | 2,000 |
| Inventory | 6,000 |
| Ordinary share capital (Kshs 50 par value) | 10,000 |
| 10% preference share capital (Kshs 100 par value) | 9,000 |
| 10% debentures | 8,000 |
| Corporate tax | 500 |
| Interim ordinary dividends paid | 2,000 |
| Other operating expenses | 1,550 |
| Distribution costs | 6,000 |
| Administrative expenses | 13,000 |
| Accounts payable | 19,000 |
| Other operating incomes | 4,000 |
| Gross profit | 25,000 |
| Debenture interest paid | 400 |
| Preference dividends paid | 450 |
| Accounts receivables | 20,000 |
| Bank | 4,100 |
| Capital redemption reserve | 6,000 |
| Share premium | 4,000 |
| Revenue reserves (1 October 2009) | 3,000 |

**Additional information:**

1. The balance on the corporate tax account represents an over provision of tax for the previous year. Tax expense for the current year is estimated at Kshs 3.0million.
2. On 15th September 2010, the directors of the company proposed to pay the dividends due to the preference shareholders and to also pay a final dividend of Kshs 2.0million to the ordinary shareholders.
3. A building whose value is Kshs 5.0 million is to be revalued to Kshs 9.0 million.

**Required:**

1. Income Statement for the year ended 30 September 2010. (10 marks)
2. Statement of financial position as at 30 September 2010. (10 marks)

**QUESTION FIVE**

Mboyamak limited manufactures farm implements. The following list of balances was extracted from the books of accounts of the company as at 31st December 2013:

|  |  |  |
| --- | --- | --- |
|  | | **Kshs** |
| Inventory as at 1st January 2013: | |  |
| Raw materials | 1,270,000 |
| Work in progress | 1,555,000 |
| Finished goods | 1,163,000 |
| Purchase of raw materials | | 4,576,750 |
| Carriage of raw materials | | 98,000 |
| Direct labour | | 4,210,400 |
| Office salaries | | 1,670,950 |
| Rent | | 260,000 |
| Electricity (office) | | 221,000 |
| Depreciation expenses: | |  |
| Machinery | 510,000 |
| Equipment (office) | 115,000 |
| Sales | | 15,931,100 |
| Electricity (factory) | | 406,000 |

**Additional information:**

1. Inventory as at 31st December 2013:

|  |  |
| --- | --- |
|  | **Kshs** |
| Raw materials | 1,445,000 |
| Work in progress | 1,230,000 |
| Finished goods | 1,442,000 |

1. Rent is to be apportioned between the factory and office in the ratio of 3:1.
2. Finished goods are transferred from factory to sales at mark up of 20%.
3. The values of opening and closing inventory are given at the transfer price.

**Required:**

1. Manufacturing account for the year ended 31 December 2013. (10 marks)
2. Income statement for the year ended 31 December 2013. (10 marks)