

**KABARAK**



**UNIVERSITY**

**2014/2015 ACADEMIC YEAR**  
**QUALIFYING EXAMINATIONS FOR THE DEGREE OF**  
**DOCTOR OF PHILOSOPHY CANDIDATES**  
**SPECIALIZATION PAPER**

**SECTION II: ACCOUNTING**

**DAY: TUESDAY**

**DATE: 17/02/201**

**TIME: 2. 00 - 5.00 P.M.**

**YEAR OF STUDY: 1**

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**INSTRUCTIONS**

1. Answer all questions
2. Calculators may be used but they must not be programmable, noisy or chorded
3. Marks for each question are indicated at the end of each question
4. This paper is a three hour paper and candidates are advised to distribute the time evenly

## QUESTION ONE

The balance sheets of three companies are given below. The balance sheets were prepared after the year end

	Balance sheets as at 31st December 2009		
	Taker ltd shs. "000"	Taken ltd shs. "000"	pending ltd shs. "000"
Free hold property	20,000	10,000	5,000
buildings	5,000	2,000	500
furniture and fittings	3,000	100	50
computers and related accessories	200	20	10
	<b>28,200</b>	<b>12,120</b>	<b>5,560</b>
investments in Taken	14,120		
Investments in Pending ltd	2,000	3,000	
stock	1,300	650	250
debtors	500	350	200
bank balance	250	150	120
cash balances	80	60	20
	<b>46,450</b>	<b>16,330</b>	<b>6,150</b>
capital	25,000	12,000	3,500
share premium	5,500	2,200	1,500
preference shares	4,950	1,130	
debentures	5,000		200
profits b/f	4,000	470	500
profit for the year	2,000	530	450
	46,450	16,330	6,150

1. Taker ltd acquired its shares on first January of the same year which amounted to 80% and 20% of the ordinary shares of Taken ltd and Pending ltd respectively
2. Taken bought Pending ltd's shares on 1st Jan i.e. beginning of the year which was 80%
2. in the course of the year, Taker ltd sold land to Taken ltd at Sh. 60,000 and buildings at Sh. 250,000. The buildings were to be depreciated at a flat rate over forty years
3. Taken ltd is owed Sh. 20,000 for services it offered to Pending ltd which is included in the debtors by taken Ltd and is cash in transit.
4. Taker ltd sold goods to Taken ltd and Pending ltd which cost Sh. 100,000 and Sh. 80,000 respectively at a mark-up of 20%. Half of the goods are still in stock.

### Required

(a) Prepare a consolidated balance sheet as at 31s December 2009

NB Show all the workings and calculations.

(15 marks)

(b) International financial reporting standard 27 provides circumstances under which a parent

Company need not prepare consolidated financial reports. Clearly identify the circumstances under which such a company may avoid preparing consolidated report, clearly indicating the importance of such exemptions (5 marks)

**QUESTION TWO.**

The balance sheet of KAA, KITI AND KETI partners is as given below. The partners share profits equally.

KAA, KITI AND KETI partners

Balance sheet as at 31<sup>st</sup> Dec 2007

	(000)	shs.	(000)	shs.
Fixed assets				
Buildings				<b>330000</b>
furniture and fittings				<b>220000</b>
Motor vehicles				<b>215000</b>
computers and related equipments				<b>21400</b>
				<b>786400</b>
Current assets				
Stocks		4000		
Debtors		10000		
investments in Nairobi stock exchange		3200		
Bank		3000		
cash		5000		
			<b>25200</b>	
Current liabilities				
Creditors		-7000		
Net current assets				<b>18200</b>
Total assets				<b>804600</b>
Financed by				
Capital				
KAA		229700		
KITI		106400		
KETI		220100		
long term loan		241400		
				<b>797600</b>
Current accounts				
KAA		2385		
KITI		1230		
KETI		3385		
				<b>7000</b>
				<b>804600</b>

The partners agreed to form a limited company to take over the partnerships assets except bank balance.

The company is to issue 200,000 shares to the partners in the ratio 1:2:1 respectively and the rest pay by cash Which it will be raised by issueing shares worth sh. 800 million which will be used as follows Sh.200,000,000 to start the company, sh. 5,000,000to meet issuing expenses and the balance used to;- retire the long term loan, pay off the creditors and the balance to pay off the partners. The shares are worth 1,000shillings each

### **Required**

Close off the books of the partnership and prepare an extract balance sheet for the company immediately after take-over assuming that the take over is effected. (20 marks)

### **QUESTION THREE**

The following balances were extracted from the books of Doing well limited, a private company engaged in the business of buying and selling merchandise On 31 Dec 2010.

Doing well ltd

	Kshs
stock January 2010	64,500
sales	849,000
purchases	510,600
carriage inwards	4,900
returns inwards	5,800
returns outward	3,300
Discounts allowed	5,780
discounts received	6,800
conversion wages	11,350
sales and distribution staff wages and salaries	29,110
Administrative staff wages and salaries	20,920
Motor expenses	15,600
Rent and rates	25,000
Investments	80,000
income from investments	3,500
Distribution expenses	8,220
Administrative expenses	2,190
bad debts	840
interest from government securities	1,600
Haulage costs	2,070
Debenture interest payable	3,800
profit and loss account : 31 December 2009	37,470
Motor vehicle at cost: Distribution van	75,000

administrative	35,000
Plant and machineries at cost: distribution & sales	80,000
Administrative	50,000
Production	15,000
Director's remuneration	5,000

Stock at 31 Dec 2010 kshs 82,800

2. The value of the investments permanently deteriorated by Kshs 14,000
3. Depreciate motor vehicles by 20% on cost plant and machineries 10% on cost
- 4 .Included in the purchases is a figure of 2000 which was directors a personal purchases.  
Apportion: motor expenses to distribution 2/3, admin 1/3 and rent distribution, 80%  
Admin and 20%. distribution
6. Accrued auditor's remuneration 2000. 7. Accrued corp. tax on ordinary activities 74000.

**Required**

- a) Draw up a profit and loss account for internal use only. (15 marks)
- b) The conceptual framework of financial accounting provides the basic building blocks upon which current and future standards may be based. Explain how conceptual framework has helped you in answering part a of this question.

(5 marks)

**QUESTION FOUR**

- a) In accounting, the following terms are given specific meanings in order to define the Jargon or language of accounting discipline.  
i) assets ii) liabilities iii) Equity iv) Investment by owners v) Distribution to owners  
vi) Comprehensive income vii) expenses viii) Gains ix) Losses.

**Required**

- a) For each element give clear and concise meaning as used in accounting (10 marks)
- b) What are the basic objectives of financial reporting and explain the importance of such precise definitions (5 marks)
- c) Cash is the life blood of any, business For a business to succeed it needs to manage its cash well.

**Required:**

- 1) Explain what the term cash as used in financial accounting stands for and explain the challenges that accountants face in reporting cash in the balance sheet. (5 marks)

## **QUESTION FIVE**

Accounting is explaining in standardized and a summarized way. Different communities achieve this by use of different routes. Secular accounting, Islamic accounting, governmental and governmental agency accounting all differ in approach, content, philosophy and objective.

### **Required:**

In a well balanced discussion, discuss the methods of accounting as given above clearly indicating their main points of departure from each other and incorporate the main areas as identified in the stem of this question. (20 marks)