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**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**University Examinations 2016/2017**

 **FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE POST GRADUATE DIPLOMA IN TAX ADMINISTRATION**

**BRT 3106: FINANCIAL ACCOUNTING 11**

**DATE: AUGUST 2017 TIME: 3 HOURS**

**Instructions: Answer Question One (Compulsory) and any other Two Questions**

**QUESTION ONE**

**(a)** Distinguish between each of the following pairs of terms:

 (i) Cash basis of accounting and accrual basis of accounting. (3 marks)

 (ii) Materiality and substance over form. (3 marks)

(b) The accountant of Mamba Sports Club has extracted the following information from the books of account for the year ended 31 March 2016:

 **Receipts Payments**

 **Sh.** **Sh.**

Balance brought forward 288,000 Salaries and wages 254,000

Subscriptions: New equipment 565,000

 Year 2014 - 2015 249,000 Repairs & maintenance 124,000

 2015 - 2016 2,050,000 Office expenses 415,000

 2016- 2017 194,000 Printing and stationery 168,000

Dinner dance 723,000 Purchase of Beverages 197,000

Beverage sales 657,000 Dinner dance expenses 315,000

Investments income 400,000 Refund of subscriptions 45,000

 Sports prizes 25,000

 Transport 218,000

 Investments 1,500,000

 Balance carried forward 405,000

 4,561,000 4,561,000

**Balances as at 31 March 2015 31 March 2016**

 **Sh. Sh.**

Furniture and fittings (net) 240,000 -

Equipment (net) 690,000 -

Investments at cost 3,500,000 -

Subscriptions in arrears 300,000 375,000

Salaries accrued 68,000 72,000

Stock of beverages 162,000 184,000

Subscriptions in advance 85,000 -

Additional information:

* + 1. Subscriptions in arrears are written-off after twelve months.
		2. Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively.
		3. Investments which had cost Sh.500,000 were sold on 30 March 2016 for Sh.625,000. No entries have been made in the books in this respect.

**Required:**

1. Income and expenditure account for the year ended 31 March 2016. (12 marks)
2. A statement of financial position as at 31 March 2016. (12 marks)

 **(Total: 30 marks)**

**QUESTION TWO**

The following list of balances as at 31 May 2016 has been extracted from the books of Bahati and Sakayo, trading as partners. They share the profits and losses in the ratio of 3:2 respectively.

 sh

Printing, stationery and postage 3,500

Sales 322,100

Stock in hand at 1 January 2015 23,000

Purchases 208,200

Rent and rates 10,300

Staff salaries 36,100

Telephone charges 2,900

Motor vehicle running costs 5,620

Discounts allowable 950

Discount receivable 370

Sales returns 2,100

Purchases returns 6,100

Carriage inwards 1,700

Carriage outwards 2,400

Fixtures and fittings: at cost 26,000

Provision for depreciation 11,200

Motor vehicles: at cost 46,000

Provision for depreciation on Motor vehecle 25,000

Provision for doubtful debts 300

Drawings: Bahati 24,000

 Sakayo 11,000

Current account balances

At 1 January 2015:

 Bahati 3,600 credit

 Sakayo 2,400 credit

Capital account balances

At 1 January 2016:

 Bahati 33,000

 Sakayo 17,000

 Debtors 9,300

 Creditors 8,400

 Balance at bank 7,700

**Additional information**

1. Interest on capital is to be charged at 10% on partners’ capital balances
2. Sakayo is to be credited with a salary at the rate of sh12,000 per annum.
3. Interest on drawings is to be charged at 5%
4. Stock in hand at 31 May 2016 has been valued at cost at sh 32,000.
5. Telephone charges accrued at 31 May 2016 amounted to sh400 and rent of sh 600 prepaid as at that date.
6. Depreciation is to be provided at the following annual rates on the straight line basis:

 Fixtures and fittings 10%

 Motor vehicles 20%

**Required:**

(i) Prepare a statement of profit or loss and other comprehensive income for the year ended 31 May 2016.

(ii) Prepare a statement of financial position as at 31 May 2016

 **(Total: 15 marks)**

**QUESTION THREE**

The following balances were obtained from the books of Buru Ltd. as at 30 April 2016 after the preparation of the trading account:

|  |  |
| --- | --- |
|  |  **Sh.** |
| Accounts receivable and prepayments | 10,880,000 |
| Accounts payable and accruals | 5,488,800 |
| Share capital, authorized and issued: |  |
|  2,400,000 Sh. 20 ordinary shares | 48,000,000 |
|  800,000 8% Sh. 20 preference shares | 16,000,000 |
| Stock – 30 April 2016 | 33,540,000 |
| Motor vehicles (Cost Sh. 11,640,000) | 2,720,000 |
| Directors’ fees | 1,000,000 |
| General expenses | 1,243,200 |
| 10% debentures | 6,400,000 |
| General reserve | 11,200,000 |
| Bad debts | 136,000 |
| Gross profit for the year | 32,603,200 |
| Salaries and wages | 11,280,000 |
| Rates and insurance | 564,000 |
| Postage and telephone | 248,000 |
| Water and electricity | 486,400 |
| Debenture interest | 320,000 |
| Office fittings and equipment (Cost Sh. 17,856,000) | 10,976,000 |
| Land and buildings at cost | 52,880,000 |
| Profit and loss account – 1 May 2015 | 9,700,800 |

**Additional information:**

1. A bill in respect of electricity for the period up to 30 April 2016 for Sh. 219,200 was accrued.

2. The amount for insurance includes a premium of Sh. 120,000 paid in January 2016 to cover the company for six months, February to July, 2016.

3. Office fittings and equipment are to be depreciated at 15% per annum on cost and motor vehicles at 20% per annum on cost.

4. Provision is to be made for:

 Directors’ fees - Sh. 2,000,000

 Audit fee - Sh. 480,000

 Corporation tax - Sh 120,000

5. The directors have recommended that:

A sum of Sh. 4,800,000 be transferred to general reserve.

The preference dividend be paid.

A 10% ordinary dividend be paid.

**Required:**

(1) Statement of profit or loss and other comprehensive income for the year ended 30 April

 2016. (8 marks)

(11) A Statement of financial position as at 30 April 2016. (7 marks)

 **(Total: 15 marks)**

**QUESTION FOUR**

The following is a Trial Balance of Mavuno Ltd as on 31 May 2016

|  |  |  |
| --- | --- | --- |
|  | **Dr****Sh.** | **Cr****Sh.** |
| Stock of raw materials 1.1.2016 | 21,000 |  |
| Stock of finished goods 1.1.2016 | 38,900 |  |
| Work in progress 1.1.2016 | 13,500 |  |
| Wages(direct sh.180,000: factory indirectsh.145,000) | 325,000 |  |
| Royalties | 7,000 |  |
| Carriage inwards (on raw materials) | 3,500 |  |
| Purchases of raw materials | 370,000 |  |
| Productive machinery (cost sh.280,000) | 230,000 |  |
| Accounting machinery (cost sh.20,000) | 12,000 |  |
| General factory expenses | 31,000 |  |
| Lighting  | 7,500 |  |
| Factory power | 13,700 |  |
| Administrative salaries | 44,000 |  |
| Sales representatives’ salaries | 30,000 |  |
| Commission on sales | 11,500 |  |
| Rent  | 12,000 |  |
| Insurance  | 4,200 |  |
| General administration expenses | 13,400 |  |
| Bank charges | 2,300 |  |
| Discounts allowed | 4,800 |  |
| Carriage outwards | 5,900 |  |
| Sales |  | 1000,000 |
| Debtors and creditors | 142,300 | 125,000 |
| Bank | 56,800 |  |
| Cash | 1,500 |  |
| Drawings | 20,000 |  |
| Capital as at 1.1.2016 | \_\_\_\_\_\_ | 29,680 |
|  | 1,421,800 | 1,421,800 |

Additional information as at 31May 2016:

1. Stock of raw materials sh.24,000, stock of finished goods sh.40,000, work in progress sh.15,000.
2. Lighting, and rent and insurance are to be apportioned: factory 5/6ths, administration 1/6th.
3. Depreciation on productive and accounting machinery at 10 per cent per annum on cost.

**Required:**

Prepare a Statement of manufacturing, Profit or Loss and other income for the year ended 31 May2016.

**(Total: 15 marks)**

 **QUESTION FIVE**

The following balances have been extracted from the accounting records of Paul Rudisha a wholesale, at the end of his financial year ended on 31 May 2016.

|  |  |  |
| --- | --- | --- |
|  | sh. | sh. |
| Purchases and sales | 104,310 | 146,200 |
| Stocks | 3,010 |  |
| Motor vehicles at cost | 26,360 |  |
| Provision for depreciation on motor vehicles as at 1 June 2015 |  | 12,960 |
| Warehouse equipment at cost | 20,000 |  |
| Debtors and creditors | 25,250 | 21,200 |
| Bank |  | 3,200 |
| Motor vehicle expenses | 11,960 |  |
| Rent and rates | 11,220 |  |
| Advertising | 2,500 |  |
| Sundry expenses (including insurance and electricity) | 3,470 |  |
| Drawings | 6,600 |  |
| Capital as at 1 June 2015 | \_\_\_\_\_\_ | 31,120 |
|  | 214,680 | 214,680 |

Additional information and opinions are given as follows:

1. Stocks at 31 May 2016 were valued at sh.2,600. This amount includes a consignment of rare fruit from abroad which cost sh.300, which would normally sell for approximately sh.660, but which is badly bruised and could be sold as juice pulp for sh.100.
2. Depreciation on motor vehicles is normally charged at an annual rate of 20%, using the reducing balance method. The motor vehicles at cost figure includes a new car purchased during the year for sh.9,600 for Rudisha’s personal use which it is estimated will last four years with an estimated residual value of sh.4,000.
3. Expenses prepaid and accrued at 31 May 2016 were estimated as follows:

|  |  |  |
| --- | --- | --- |
|  | Prepayments | Accruals |
|  | sh. | sh. |
| Rates | 230 |  |
| Rent |  | 160 |
| Insurance | 180 |  |
| Electricity |  | 200 |

1. A bad debt of sh.250 is to be written off. A provision for doubtful debts of 1% of outstanding debtors should be created.
2. A recording error has resulted in a second-hand delivery van, purchased on 2 June 2015 for sh.9,000, being treated as a motor vehicle expense.
3. No record has been made of fruit, estimated to have cost sh.520, withdrawn from the business by Rudisha for his personal use.
4. No adjustment should be made, in preparing the answer to part (a) for the new warehouse equipment purchased during the year.

**Required:**

(i) Prepare a statement of profit or loss and other comprehensive income for the year ended 31 May 2016.

(ii) Prepare a statement of financial position as at 31 May 2016

 **(Total: 15 marks)**