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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING

Date: 7th August, 2024
Time: 2.30pm –4.30pm

DAC 1505 ADVANCED FINANCIAL ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) 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 codes of ethics for professional accountants. (6 marks)
- b) Mr Mwangi prepared a trial balance which did not balance. The credit side was less by Sh 120,000 and was covered by a suspense account. On further investigation he discovered that;
- Furniture bought for Sh 300,000 was entered in the purchases account.
 - Sales were undercast by Sh 180,000
 - Goods returned by a customer worth Sh 30,000 had not been posted to the account of the debtor.
 - Cash drawings of Sh 50,000 were omitted from the books
 - Goods bought on credit for Sh 120,000 were entered in the account of a creditor as Sh 210,000.

Required

- i) Prepare journal entries to correct the errors (5 marks)
- ii) Prepare Suspense account to clear the difference (5 marks)
- c) Maranga is a trader who has not kept proper books of account. His state of affairs were as follows;

	31.12.2022
	Sh
Cash	22,800
Bank Balance	217,200
Fixtures	196,200
Stock	286,800
Debtors	352,800
Van	652,800
Creditors	109,200
Drawings	120,000

Capital brought forward from 2021 is Sh 1,535,400

Required

Prepare a statement showing the profit or loss for the year ended 31 December 2022

(8 marks)

- d) Multinational companies have subsidiaries in several countries in the world which necessitated adoption of International Financial reporting standards (IFRS). What are the benefits of adopting IAS/IFRS as a basis of preparation of financial statements? (6 marks)

QUESTION TWO (20 MARKS)

The following Trial Balance relate to Memo Manufacturers

	Dr	Cr
	Sh	Sh
Stock of raw materials 1.1.2022	49,000	
Stock of finished goods 1.1.2022	77,800	
Work in progress 1.1.2022	27,000	
Direct Wages	360,000	
Factory Indirect wages	290,000	
Purchase of raw materials	740,000	
Factory Machinery	480,000	
Office Equipment	48,000	
General factory expenses	62,000	
Lighting	15,000	
Factory electricity	27,400	
Administrative staff salaries	88,000	
Sales staff salaries	60,000	
Commission on sales	23,000	
Rent	24,000	
Insurance	8,400	
General administrative expenses	26,800	
Bank charges	4,600	
Sales		2,030,000
Debtors and creditors	284,600	250,000
Cash at Bank	178,000	
Capital 1.1.2022		593,600
	2,873,600	2,873,600

- Lighting, rent and insurance are to be apportioned: factory $\frac{5}{6}$ th, administration $\frac{1}{6}$ th.
- Stock of Raw Materials Sh 48,000, Stock of finished goods Sh 80,000 and work in progress Sh 30,000.
- Depreciation on factory machinery and office equipment at 10% per annum on cost

Required

- Prepare a manufacturing trading and profit loss account for the year ended 31 December 2022 (10 Marks)
- Balance sheet for the year ended 31 December 2022 (10 Marks)

QUESTION THREE (20 MARKS)

The following trial balance has been extracted from ledger of Ndigi wholesalers as at 30 June 2022

	Dr	Cr
	Sh	Sh
Sales		1,863,000
Purchases	1,210,050	
Rent, rates and insurance	89,100	
Postage and stationery	40,500	
Advertising	17,955	
Salaries and wages	356,670	
Bad debts	12,150	
Allowances for doubtful debts		4,050
Accounts receivable	163,350	
Accounts payable		87,750
Cash in hand	9,720	
Cash at bank	50,205	
Drawings	72,450	
Inventory 1 July 2021	160,650	
Motor vehicle		
• at cost	700,000	
• Accumulated depreciation 1 July 2021		280,000
Furniture and Equipment		
• At Cost	200,000	
• Accumulated depreciation 1 July 2021		38,000
Capital		810,000
	3,082,800	3,082,800

Additional Information

- i) Rent is accrued Sh 6,400
- ii) Rates have been prepaid Sh 8,100
- iii) Equipment is depreciated at 10% p. a on reducing balance basis
- iv) Motor vehicle is depreciated at 20% p.a straight line
- v) Allowance for doubtful debts is to be provided at 3% of receivable
- vi) Inventory at 30 June 2021 was Sh 182,250

Required

- i) Prepare a statement of comprehensive income for the year ended 30 June 2022
- ii) Statement of financial position as at 30 June 2022

(10 marks)

(10 marks)

QUESTION FOUR (20 MARKS)

- a) Identify and explain three main differences between cash book and bank statement (4 marks)
- b) Discuss the purpose of bank reconciliation statement (4 marks)
- c) During the year ended 2022 the bank statement of Aby Enterprises showed a balance of Sh 862.200 while the cash book showed a debit balance of Sh 895,000. On further investigation the following was discovered.
- The bank statement had bank charges worth Sh. 5,000, Interest charges of Sh.14,500 and direct debits of Sh. 35,000 which not posted into the cash book
 - Cheques given to suppliers worth Sh 42,500 which had not been presented to the bank.
 - Cheques received from customers worth Sh 21,700 which had not been banked.
 - A cheque received from the customer of Sh 9,800 had been posted in the cash book as Sh 8,900. The correct amount appears in the bank statement.

Required

- i) Updated cash book (4 marks)
- ii) Bank reconciliation statement (4 marks)

Highlight the causes of errors that make the Trial balance not to balance (4 marks)

QUESTION FIVE (20 MARKS)

- a) Outline three areas in partnership business that should be covered by the partnership agreement (3 marks)
- b) Susan and Violet are in partnership sharing profit and losses in the ration 3:2. The following is the summarised trial balance as at 31 December 2022.

	Sh	Sh
Non-Current assets	4,035,000	
Accounts Receivable	1,691,000	
Accounts Payable		1,438,000
Cash at Bank	151,500	
Net profit		2,836,500
Closing Inventory	1,855,000	
Capital: Susan		2,500,000
Violet		1,875,000
Current Accounts: Susan		102,500
Violet		30,000
Drawings: Susan	555,000	
Violet	495,000	
	8,782,500	8,782,500

Additional Information

- a) Partnership Salary Susan Sh 750,000
- b) Interest on drawings Susan Sh 45,000, Violet 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 (7 marks)