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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 19th April, 2023
Time: 11.30am –1.30pm

KAC 300 - ADVANCED FINANCIAL ACCOUNTING TECHNIQUES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Auto Transmissions Ltd manufactures electrical equipment. The following trial balance as of 31 March 2020 has been extracted from the books of the company:

| | Shs 000 | Shs 000 |
|--|---------|-----------|
| Ordinary shares of 50 p each | | 400,000 |
| 10% Redeemable Preference shares of sh1 each | | 200,000 |
| Retained profits as at 1 April 2019 | | 42,475 |
| Office block (Land sh 40,000,000) | 170,000 | |
| Plant and machinery | 730,000 | |
| Office equipment | 110,000 | |
| Motor vehicles | 200,000 | |
| Provision for depreciation – Plant and Machinery | | 224,500 |
| - Office equipment | | 24,500 |
| - Motor vehicles | | 80,000 |
| Accounts receivables/Payables | 500,000 | 356,226 |
| Provision for doubtful debts | | 1,000 |
| Manufacturing wages | 501,400 | |
| Inventory as at 1 April 2019 – raw materials | 70,000 | |
| - Work in progress | 126,000 | |
| - Finished goods | 250,000 | |
| Transport expenses | 85,013 | |
| Returns inwards | 15,106 | |
| Purchases of raw materials | 518,600 | |
| Sales | | 2,600,147 |
| Bank balance | | 60,020 |
| Directors' salaries | 60,114 | |
| Maintenance of plant | 30,102 | |
| Rent | 40,063 | |

| | | |
|--|------------------|------------------|
| Advertising | 190,048 | |
| Rates | 50,171 | |
| Insurance | 20,116 | |
| Office salaries | 166,013 | |
| Light and heat | 46,027 | |
| Factory power | 30,014 | |
| Bank interest | 7,070 | |
| Interim dividends on preference shares | 10,000 | |
| General administration expenses | <u>63,011</u> | |
| | <u>3,988,868</u> | <u>3,988,868</u> |

Further information is as follows:

(1) Depreciation is to be provided as follows:

| | |
|---------------------|--------------------------------------|
| Plant and machinery | 15% on cost. (Production expense) |
| Office equipment | 10% on cost (administration expense) |
| Motor vehicles | 25% on WDV (distribution cost) |
| New office blocks | 2% on cost (Administration expense). |

(2) Prepayment of rates at 31 March 2020 was shs3,140,000

(3) An insurance premium for public liability cover amounting to sh 3,360,000 was paid for the year to 30 June 2020.

(4) The amount owing for light and heat is sh1,214,000 and rent is sh2,321,000 as of 31 March 2020.

(5) Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and office expenses.

(6) The provision for doubtful debts is to be maintained at 1% of the accounts receivables.

(7) The production director acts as a factory manager, his salary is sh20,000,000. Office salaries include amounts paid to salesmen of sh 64,237,000.

(8) The corporation tax of sh100,000,000 is to be provided,

(9) During the year shs 1,500,000 electrical equipment's were transferred from the factory to the warehouse. Only 100,000 pieces of equipment were in hand at the end of the year.

(10) Inventory at cost as at 31 March 2020 was as follows:

| | |
|------------------|--------------|
| Raw materials | sh56,200,000 |
| Work in progress | sh47,190,000 |
| Finished goods | ? |

Required:

- a)
 - i) Prepare the published income statement for the year ended 31 March 2020. **(10 marks)**
 - ii) A statement of financial position as at the same date. **10 marks)**
 - iii) Explain any five qualitative characteristics of the financial statements. **(5 marks)**
- b) Describe five users of the financial statement information's. **(5 marks)**

QUESTION TWO (20 MARKS)

- a) Explain the term "bank reconciliation" and state the reasons for its preparation. **(6 marks)**
- b) Ssemakula, a sole trader received his bank statement for the month of June 2021. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies:
1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
 2. Cheques drawn by Ssemakula totaling Sh.22,500 had not yet been presented to the bank.
 3. He had not entered receipts of Sh.26,500 in his cashbook.
 4. The bank had not credited Mr. Ssemakula with receipts of Sh.98, 500 paid into the bank on 30 June 2021.
 5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
 6. In the cash book Ssemakula had entered a payment of Sh.74, 900 Sh.79400.
 7. A cheque for Sh. 15,000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
 8. Ssemakula had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
 9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honoured it.
 10. Some of Ssemakula's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Ssemakula had entered the expected receipts from the debtors in his cashbook.

Required:

- i) A statement showing Ssemakula's adjusted cash book balance as at 30 June 2021. **(9 marks)**
- ii) A bank reconciliation statement as at 30 June 2021. **(5 marks)**

QUESTION THREE (20 MARKS)

- a) Ratio analysis is a strong tool for measuring the financial performance of companies. Discuss . **(8 marks)**
- b) Define the following cash flow activities;
- i) Operating
 - ii) Investing
 - iii) Financing
 - iv) Noncash flow. **(8 marks)**
- c) Describe any four reasons why a firm may be making profits and suffering from cash flow issues. **(4 marks)**

QUESTION FOUR (20MARKS)

A and B own a grocery shop. Their first financial year ended on 31 December 2022.
The following balances were taken from the books on that date:

| | | |
|-----------------------|----------------|----------------|
| Capital: | A- sh 60,000; | B – sh 48,000. |
| Partnership salaries: | A - sh 9,000; | B - sh 6,000. |
| Drawings: | A – sh 12,000; | B – sh 13,400. |

The firm's net profit for the year was sh32,840.
Interest in capital is to be allowed at 10% per year.
Profits and losses are to be shared equally.

- a) From the information above prepare the firm's appropriation account and the partners' current accounts. (10 marks)
- b) Describe five advantages of a partnership business. (10 marks)

QUESTION FIVE (20 MARKS)

Denticare Limited makes its accounts on 30 June every year.
On 1 July 2021, the company's balance sheet included the following figures for non-current assets:

| | Cost | Accumulated Depreciation |
|---------------------|----------------------|-------------------------------------|
| | Sh. '000' | Sh. '000' |
| Land | 40,000 | Nil |
| Buildings | 22,000 | 8,000 |
| Plant and machinery | 16,000 | 6,000 |
| Motor vehicles | 6,000 | 2,000 |

The company's policy is to charge depreciation at the following rates:

| | Rate |
|---------------------|-------------|
| Land | Nil |
| Buildings | 2% on cost |
| Plant and machinery | 15% on cost |
| Motor vehicles | 20% on cost |

A proportionate charge is made in the year of purchase, sale, or revaluation of an asset.

During the year ended 30 June 2022, the following transactions took place:

1. On 1 January 2022 the company decided to adopt a policy of revaluing its buildings. A professional valuer engaged for this purpose revalued the buildings at Sh.34 million.
2. On 1 January a plant that had cost Sh.3 million was sold for Sh.500, 000. Accumulated depreciation on this plant on 30 June 2021 amounted to Sh.2.3 million. A new plant was then purchased at a cost of Sh.4 million.
3. On 1 April 2022 a new motor vehicle was purchased for Sh.300, 000. Part of the purchase price was settled by exchanging another motor vehicle at an agreed value of Sh.120, 000. The balance of Sh.180,000 was paid in cash. The vehicle which was given in part exchange had cost Sh.200, 000 and had a net book value of Sh.100, 000 as of 30 June 2021.

Required:

- a) The following ledger accounts to record the above transactions:
 - (i) Buildings account.
 - (ii) Provision for depreciation: Buildings.
 - (iii) Plant and machinery account.
 - (iv) Provision for depreciation: Plant and Machinery.
 - (v) Motor vehicles account.
 - (vi) Provision for depreciation: Motor vehicles. **(12 marks)**
- b) Property, plant, and equipment movement schedule for the year ended 30 June 2022. **(8 marks)**

