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University Examinations 2023/2024

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN APPLIED ACCOUNTING

BFH 3253: ADVANCED FINANCIAL ACCOUNTING AND REPORTING

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- a) Discuss the reasons for amalgamation of partnership firms (10 marks)
- b) N, K, L and M, who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4:3:2:1, had a serious disagreement on 15 January 2024 which necessitated a dissolution of the partnership.

For the purpose of dissolution, their accountant extracted a balance sheet as at 1 February 2024 as follows:

	Sh. '000'	Sh. '000'
Non - current assets:		
Land and buildings		21,250
Plant and machinery		19,802.5
Furniture and fittings		7,500
Investments		<u>5,000</u>
		53,552.5
Current Assets:		

Inventory	15,870	
Debtors	9,602.5	
Balance at bank	<u>782.5</u>	<u>26,255.0</u>
Total Assets:		<u><u>79,807.5</u></u>
Capital Account:		
N		10,000
K		17,500
L		10,000
M		<u>7,500</u>
		45,000
General Reserves		17,500
Current liabilities:		
Creditors		<u>17,307.5</u>
		<u><u>79,807.5</u></u>

Additional information:

- The assets, which were sold on piecemeal basis, realized cash as follows:

10 February 2024	Inventory (partial)	Sh. '000'
16 February 2024	Debtors (partial)	8,750.0
27 February 2024	Investments	7,330.0
03 March 2024	Furniture and fittings	6,050.0
20 March 2024:	Land and buildings	5,000.0
	Debtors (partial)	17,500.0
	Inventory (balance)	1,250.0
15 April 2024:	Plant and machinery debtors (balance)	6,875.0
		16,400.0
		877.5
- The partners agreed to set aside Sh. 1.25 million to meet realization expenses. Any cash available for distribution thereafter was to be shared immediately the creditors were paid in full.
- The realization expenses which amounted to Sh. 1 million were paid on 15 April 2024.

Required:

Using the maximum possible loss method, prepare:

- a) Statement showing how the proceeds should be shared (10 marks)
- b) Realization account, bank account and capital account to close off the book of the partners (10 marks)

QUESTION TWO (20 MARKS)

a) Accounting standards improve the quality and uniformity of reporting and introduce a definitive approach to the concept of what is true and fair. Explain the main advantages accounting standards.

(10 marks)

- b) Discuss the main disadvantages of accounting standards (10 marks)

QUESTION THREE (20 MARKS)

a) In accordance with IAS 19 (Retirement benefits) explain the following terms:

- i. Pay as you go (2 marks)
- ii. Defined contribution plan (2 marks)
- iii. Defined benefit scheme (2 marks)

b) The following trial balance was extracted from the books of MUST Retirement Benefits Scheme for the year ended 30 September 2023:

	Sh.	Sh.
Accumulated fund — 1 October 2022		461,560
Accrued expenses		240
General administrative expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Commutations and lump sum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer's normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out of other schemes	1,860	

Investment income		47,400
Immovable property	132,320	
Government securities	263,605	
Members' normal contributions		18,240
Members' additional voluntary contributions		4,560
Pensions	7,640	
Equity investments — quoted	87,835	
Unpaid benefits		320
Equity investments — unquoted	<u>19 990</u>	<u> </u>
		<u>571,950</u> <u>571,950</u>

Required:

- (i) Statement of changes in net assets as at 30 September 2023. (10 marks)
- (ii) Statement of net assets as at 30 September 2023. (4 marks)

QUESTION FOUR (20 MARKS)

Ali and Bali are in partnership trading as A and B Retailers. Similarly, Cheche and Dunga are in partnership trading as C and D Traders. It was mutually agreed that as at 1 January 2022, the partnership businesses be amalgamated into one firm, ABC and D Enterprises. The profit and loss sharing ratios of the partners both in the old and new partnership were as follows:

	Ali	Bali	Cheche	Dunga
Old firms	4	3	3	2
New firm	6	5	4	3

As at 31 December 2023, the balance sheets of the firms were as follows:

	A and B Retailers		C and D Traders	
Non- current assets:	Sh.	Sh.	Sh.	Sh.
Property		740,000		1,000,000
Fixtures and fittings		180,000		140,000
Motor vehicles		<u>300,000</u>		<u>180,000</u>
		<u>1,220,000</u>		<u>1,320,000</u>
Current assets:				
Stock	830,000		660,000	
Investments	80,000		-	
Debtors	680,000		580,000	
Bank balance	<u>340,000</u>		<u>-</u>	
	1,930,000		1,240,000	
Current Liabilities:				
Creditors	(520,000)		(600,000)	
Bank overdraft	<u> </u>	<u>1,410,000</u>	<u>(90,000)</u>	<u>550,000</u>
Net assets		<u>2,630,000</u>		<u>1,870,000</u>
Capital Accounts:				
Ali		1,500,000	Cheche	1,100,000
Bali		<u>1,050,000</u>	Dunga	<u>700,000</u>
		2,550,000		1,800,000
Current Accounts:				
Ali	30,000		Cheche	30,000
Bali	<u>50,000</u>	<u>80,000</u>	Dunga	<u>70,000</u>
		<u>2,630,000</u>		<u>1,870,000</u>

The agreement to amalgamate the firms contained the following provisions:

1. Provision for bad and doubtful debts at the rate of 5% was to be made in respect of debtors and a provision for discount receivable at the rate of $2\frac{1}{2}\%$ was to be made in respect of creditors.
2. ABC and D Enterprises was taken over the old partnerships' assets at the following values:

	A and B Retailers		C and D Traders	
	Sh.	Sh.	Sh.	Sh.
Stock		845,000		639,000

Motor vehicles	280,000	130,000
Fixtures and fittings	160,000	-
Property	1,000,000	-

- The property and fixtures of C and D traders were not to be taken over by ABC and D Enterprises. These assets were sold for Sh. 1,350,000 on 1 January 2022.
- Bali was to take over his firm's investments at value of Sh.76,000.
- The total capital of ABC and D Enterprises was to be Sh. 5,400,000. This was to be contributed by other partners in their profit or loss sharing ratios, any adjustments necessary being made in cash.
- Goodwill relating to the two firms was to be recognized as follows:

A and B Retailers	-	Sh. 630,000
C and D Traders	-	Sh. 450,000

Required:

- The relevant accounts to close off the books of A and B Retailers and C and D Traders. (20 marks)
- The opening balance sheet of ABC and D Enterprises as at 1 January 2022. (10 marks)

QUESTION FIVE (20 MARKS)

Jamila traders has a head office in Nanyuki and an automation branch in Thika. The trial balances of head office and the branch as at 30 September 2023 were as follows:

	Head Office		Thika Branch	
	Sh.	Sh.	Sh.	Sh.
Buildings (at cost)	3,500,000			
Goods sent to branch		6,482,205		
Goods received from head office			6,387,330	
Accounts receivable	764,700		535,800	
Remittance from branch		7,548,750		
Remittances to head office			7,620,000	
Cash at bank	397,800		289,250	

Stock (at cost)	2,595,000			
Stock (at mark up)			1,552,500	
Sales		13,000,000		9,202,200
Capital (1 October 2003)		6,040,925		
Bank overdraft				250,000
Furniture and fittings	779,500		23,500	
Purchases	13,626,600			
Rent and rates	395,400		197,250	
Salaries and wages	851,700		487,500	
Current accounts	8,931,555			8,836,680
General expenses	1,887,750		1,258,950	
Accounts payables		1,239,000		
Drawings	783,375			
Provision for unrealized profits	_____	<u>202,500</u>	_____	_____
	<u>34,513,380</u>	<u>34,513,380</u>	<u>18,559,080</u>	<u>18,559,080</u>

Additional Information:

1. Depreciation on furniture and fittings is to be provided at the rate of 10% per annum using the reducing balance method.
2. A bonus of 10% is payable to the staff at the head office and the branch. The bonus is based on net profits after charging these bonuses.
3. Goods sent to the branch in August 2023 and which had an invoice value of Sh.94,875 were stolen in transit. The insurance company agreed to meet the claim to the extent of only 85% of the cost of the goods.
4. Goods were invoiced to the branch at 15% above cost all sales were at a markup of 33 1/3% above the cost to head office.
5. No shortages of stock were reported at the head office or the branch.

Required:

Prepare in columnar form for the head office. Thika branch and the combined business, the income statements for the year ended 30 September 2023. (12 marks)

