

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

THIRD YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF COMMERCE

**ACCT 311: ADVANCED FINANCIAL ACCOUNTING ONE**

***STREAM: R***

***TIME: 2 HRS***

***DAY: WEDNESDAY [14.30 P.M-16.30 P.M]    DATE: 04/02/2026***

**THIS QUESTION PAPER CONSISTS OF SEVEN (7) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**

**Instructions:**

1. Answer question one (compulsory) and any other two
2. Start a new question on a new page
3. Do all the workings in the booklet

**QUESTION ONE**

a) Shamla and Abdul have been operating businesses each as a sole trader. Due to stiff competition, they decided to amalgamate their businesses and form a partnership firm on 1<sup>st</sup> January 2024. The financial position of the two individual sole traders on 31<sup>st</sup> December, 2024 were as follows:

**SHAMLA**Balance sheet as at 31<sup>st</sup> December 2024

<i>Non-current assets:</i>	<i>Shs.</i>	<i>Shs.</i>
Plant and machinery		800,000
Furniture		<u>200,000</u>
		<b><u>1,000,000</u></b>
<i>Current assets:</i>		
Stock	400,000	
Debtors	100,000	
Bank	<u>300,000</u>	
	<b><u>800,000</u></b>	
<i>Less current liabilities:</i>		
Creditors	<u>(110,000)</u>	<u>690,000</u>
		<b><u>1,690,000</u></b>
<i>Financed by:</i>		
Capital		<b><u>1,690,000</u></b>

**ABDUL**Balance sheet as at 31<sup>st</sup> December 20X4

<i>Non-current assets:</i>	<i>Shs.</i>	<i>Shs.</i>
Plant and machinery		500,000
Furniture		<u>250,000</u>

		<b><u>750,000</u></b>
<i>Current assets:</i>		
Stock	500,000	
Debtors	80,000	
Bank	<u>140,000</u>	
	<b><u>720,000</u></b>	
 <i>Less current liabilities:</i>		
Creditors	<u>(260,000)</u>	<u>460,000</u>
		<u><u>1,210,000</u></u>
 <i>Financed by:</i>		
Capital		<u><u>1,210,000</u></u>

The new partners have agreed on the following terms:

- i) Shamla and Abdul are to be credited with Shs. 150,000 and Shs. 100,000 respectively to goodwill accounts.
- ii) The debtors of both firms were taken at book value but a provision for bad debts is provided at 5% on debts.
- iii) The creditors of Abdul were taken over by the new firm but Shamla was required to discharge it's own liability in regard to creditors.
- iv) Assets were revalued as follows:

	<b>Shamla</b>	<b>Abdul</b>
Plant and machinery	600,000	-
Stock	-	450,000

**Required:**

- i) Journal entries to close the separate books of Shamla and Abdul **(4marks)**
- ii) Journal entries to open the books of Shamla and Abdul partnership **(4marks)**
- iii) Opening financial position of the partnership **(4marks)**

- b) The objective of IAS No.24 is to ensure that an entity's financial statement contain the disclosure necessary to draw attention to the possibility that its financial position and income statement may have been affected by the existence of related parties transaction.

**Required:****Explain:**

- i) The persons who would be classified as related parties **(5marks)**
- ii) Why it is important to know these related parties **(5marks)**
- c) An organization does not become insolvent overnight. As we operate, there are various symptoms that will be seen to signal insolvency.

**Required:**

Explain the various symptoms that will show that an organization may be headed for solvency. **(8marks)**

**QUESTION TWO:**

- a) Malaika and Obamba entered into a joint venture to buy maize then resale at a profit. They share profit and losses at the ratio 2:1 respectively.

On 1 March 2024 Malaika purchases maize for Shs. 108,000 and Obamba paid Shs. 15,800 for transportation to Nairobi warehouse. On the same date Obamba bought maize for Shs. 210,000 on credit from Olanyo Ltd. The following transactions were further effected:

- March 8 : Malaika sold maize for Shs. 133,000
- March 13 : Malaika paid Olanyo Ltd Shs. 70,000
- March 16 : Obamba paid warehousing Shs. 7,000
- March 28 : Obamba sold maize Shs. 146,000
- April 4 : Malaika paid insurance Shs. 6,000
- April 6 : Malaika sold maize for Shs. 77,500
- April 23 : Obamba paid Olanyo Ltd Shs. 140,000
- April 26 : Obamba sold maize Shs. 300,000

The stock at hand on 30 April 2024 was taken over by Obamba at the valued price of Shs. 63,000. The account between Malaika and Olanyo were settled by cash payment of this date.

**Required:**

- i) Joint venture account in the books of Malaika **(4marks)**
- ii) Joint venture account in the books of Obamba **(4marks)**

iii) Memorandum joint venture account

(4marks)

b) Businesses can combine in a number of ways namely: absorption, amalgamation or by acquisition of shares.

**Required:**

With illustrations, explain

i) Each of the above method

(4marks)

ii) When is each of the above method is preferable

(4marks)

**QUESTION THREE**

a) On 1<sup>st</sup> November 2017 Kazi Ltd, were awarded a contract price of Shs. 24,000,000. The following information from the books of Kazi Contractors Ltd, relates to the contract for the year ended 31<sup>st</sup> October 2018.

	<b>Shs. (000)</b>
Materials issued from store	4,200
Materials delivered directly to site	3,400
Wages paid	2,450
Plant installed on site (2 <sup>nd</sup> November 2017)	12,000
Indirect wages	680
Subcontractor's fees	500
Head office costs charged	240
Direct expenses	350
Materials returned to store	480
Material sales at site (cost Sh. 25,000)	50
Plant returned to head office from site	2,000
Plant at site on 31 <sup>st</sup> October 2018 (cost)	10,000
Cost of extra work (not covered in original contract)	100
Price of extra work	160
Cash received on work certified	18,000
Cost of uncertified work	4,500

Kazi Contractors Ltd accounting policy is to depreciate plant at 12.5% on cost per annum. Retention money was agreed at 10% of the work certified.

**Required:**

- i) Contract account in the books of Kazi Ltd., showing profits or losses declared on the contract for the year ended 31<sup>st</sup> October 2018. **(6marks)**
  - ii) Work in progress valuation **(2marks)**
  - iii) List the amounts of items pertaining to the contract, as they will appear as assets in Kazi Contractor's balance sheet **(2marks)**
  - iv) Balance sheet extract **(2marks)**
- b) Consignment refers to the agency practice of sending goods to an agent for sale in return of an agreed commission.

**Required:**

With illustration, explain the main features of consignment **(8marks)**

**QUESTION FOUR**

- a) On 1 July 2024 Webuye Ltd made bonus issue of three fully paid shares for every four shares held on 30 June 2024 and gave its members the right to apply for one share for every two shares held on that date at a price of Shs. 150 per share of which Shs. 50 was payable on application on or before 31 July 2024 and the balance 30 September 2024.

The new shares issued as above were not to rank for dividend for the year ended 30 September 2024.

The Nairobi Investment Trust Ltd duly acquired the bonus shares and took up 2,000 shares under the rights issue. It sold the rights to the remaining shares to which it was entitled for Shs. 55 each on 15 September 20X4.

Payment for the shares taken up was made on due dates.

On 10 October 2024 Webuye Ltd declared and paid dividends of 15% less income tax for the year ended 30<sup>th</sup> September 2024.

On 16 October 2024 the Nairobi Investment Trust sold 860 shares in Webuye Ltd at Shs. 150 per share.

It was not the practice of Nairobi Investment Ltd to make apportionment of dividends received or receivable.

Income tax is at Shs. 40 per Shs. 100 (ignore expenses of sale).

**Required:**

Show the investment accounts of Webuye Ltd Shares in the book of Nairobi Investment Trust Ltd for the period ended 31 October 2024. Show your workings. **(10marks)**

b) A partnership may decide to convert into a limited company, this may be necessitated by the need to take advantage of incorporation that it is not enjoying in its current situation.

If this happens, the partners will acquire different legal status either as shareholders, debenture holders or even a director.

**Required:**

Explain with illustrations the various accounting entries required (what accounts to debit or credit) in this exercise. **(10marks)**