**Advanced Accounting I**

**Assignment One, Two and Three( 20 MARKS )**

Mali Mengi (aged 57) died in a road accident on 31 December 2019. On 1 May 2020 after his executors had paid all debts, (except for the mortgage on his freehold house and debt to Mkopeshaji) testamentary and funeral expenses, his estate was ascertained as follows:

|  |  |  |
| --- | --- | --- |
|  | **Sh.’000’** | **Sh.’000’** |
| Cash in bank accounts  Freehold house  Toyota corolla  Nissan sunny  Television and music system  Debt due from Pungulu  Furniture and personal effects  10,000 ordinary shares in Cement Ltd.  4,500 ordinary shares in Soko Mjinga Ltd.  Sh.800,000 10% Kenya stock  Income received to date  Interest  Dividend from Soko Mjinga Limited  Less: Mortgage interest paid 31 March  2020 | 230  37  267  120 | 4,250  3,250  360  220  105  40  302  1,200  370  165  147 |
|  |  | 10,409 |

Extracts from Mali Mengi’s will left bequests as follows:

* 1. To each of my sons, Kikwajuni, Mnazini and Mwembeni Sh.1 million.
  2. To my wife Darajani, I leave my furniture, household and personal effects and the residue of my estate.
  3. To my daughter Nyanjale, my freehold house free of all duties. The house was subject to a mortgage of Sh.1 million earning interest at 24% per annum payable 31 March and 30 September. Duty on the house amounts to Sh.130,000.
  4. To my friend Kisitu, one of the motor cars owned by me at the time of my death he may choose.
  5. To my friend, Mlungu Sh. 100,000.
  6. To some of my sisters-in-law Sh.300,000.
  7. To my cousin, Nipa, my painting of the Mausoleum by Kikuvu.
  8. To my driver Ndeleva Sh.150,000
  9. To my friend Shimba, my holding of Sh.800,000 110%; Kenya stock. Mali Mengi owed Shimba sh.100,000.
  10. To my sister Malindi, Sh.300,000.
  11. To my personal assistant, Sijapata, half of my holdings in Cement Ltd.
  12. To my niece Sinani, 4,000 ordinary shares from my holding of such shares in Cement Ltd.
  13. To my nephew Shaibu Sh.200,000 payable out of my shares in Cement Ltd.
  14. To my friend Mlungu Sh.50,000
  15. To my neighbor Jirani, Sh.50,000.
  16. To my sister Dada, Sh.100,000 to establish a business.

Mali Mengi’s executors ascertained that the following beneficiaries were dead:

1. Son Mnazini, died in 2017 leaving a wife and two children
2. Son Mwembeni, died 2018 leaving a wife.
3. Sister Malindi, died in 2016 leaving two daughters.
4. Driver, Ndeleva aged 60 died in the same accident as Mali Mengi. It was impossible to determine the order in which Mali Mengi and Ndeleva died.

The executors also advise you that:

(i) Kisitu chose the Toyota Corolla.

(ii) Mali Mengi sold his painting of the mausoleum, using the proceeds to purchase his holdings in Soko Mjinga Ltd.

# (iii) There is no such investment as 110% Kenya Stock. The reference in the will to 110% is thought to be a typing error not previously noticed.

(iv) Jirani replied in writing that he did not want anything from Mali Mengi because Mali Mengi was a bad neighbour.

(v) Mali Mengi paid the Sh.100,000 during his lifetime to his sister Dada to establish her business.

**Required:**

(a) A statement showing the distribution of Mali Mengi’s estate on 1 May 2020.

# (b) A list of legacies to which the executors should not assent, briefly give reasons for the decision.

**CAT TWO ( 20 MARKS )**

Kena, Limo and Mara had been orphaned when both their parents died in a bus accident in April 2012. Their uncle Barua, a stockbroker at the Nairobi stock exchange organized a harambee for them in June 2012 and raised sh, 1980,000. He invested this amount as follows:

Shs.

9,600 sh. 10 Ordinary Shares in KAB Ltd 432,000

12,600 sh. 10 Ordinary Shares in BBB Ltd 756,000

13,200 sh. Ordinary shares in TEA Ltd 792,000

1,980,000

He established an accumulation and maintenance trust to hold these investments on behalf of the children. The trust had a wide investment clause. He ruled that accounts be made up to 31st May each year. When each child reached the age of 21, the trustees were to transfer to him his share of the fund at that date. Kena turned 21 years on 31st may 2016.

The balances on the accumulation Accounts Kena, Limo and Mali at 1st June 2015 were sh. 207,900, sh. 103,950 and sh. 34,650. To this date, the trustees had used accumulated income to purchase 5,775 sh. 10 Ordinary shares in TEA Ltd. on 1st June 2015, there was no cash in the income account in the bank.

In the year to 31st May 2016 sh, 227,750 was received from capital investment and sh 62,370 from Accumulation investments and maintenance payments made on behalf of Kena, Limo and Mali were sh 77,000,sh 81,000 and sh,94,000 respectively. On 31st May 2016, the market values of the shares in KAB Ltd, BBB Ltd, and TEA Ltd were sh 60,sh80 and sh 70 respectively.

Kena was to receive 10,000 sh. Ordinary shares in BBB Ltd and the balance due to him on capital would be made up of shares in KAB Ltd. Out of the accumulation assets, Kena was to receive sh.32, 222 in cash and the balance in shares in TEA Ltd.

**Required:**

The beneficiaries’ accumulation accounts for the year ended 31st May 2016 and distribution statements for the capital and accumulation assets as at 31st May 2016.

**CAT ONE**

Jamila Traders has a head office in Nanyuki and an autonomous branch in Thika. The trial balances of the head office and the branch as at 30 September 2014 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 |  |
| Remittances 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 2013) |  | 6,040,925 |  |  |
| Bank overdraft |  |  |  | 250,000 |
| Furniture and fittings | 779,500 |  | 230,500 |  |
| 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 payable |  | 1,239,000 |  | 270,200 |
| Drawings | 783,375 |  |  |  |
| Provision for unrealized profits | \_\_\_\_\_\_\_\_\_ | 202,500 | \_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_ |
|  | 34,513,380 | 34,513,380 | 18,559,080 | 18,559,080 |

**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 2014 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 mark up of 33⅓% above the cost to head office.

5. No shortages of stock were reported at the head office or the branch.

**Required:**

(a) Prepare in columnar form for the head office, Thika branch and the combined business, the income statements for the year ended 30 September 2014. (12 marks)

(b) The combined balance sheet as at 30 September 2014. (8 marks)

**(Total: 20 marks)**