



NURTURING INNOVATORS

**RIARA SCHOOL OF BUSINESS
MAY – AUGUST 2023 TRIMESTER
EXAMINATION FOR DEGREE IN BUSINESS ADMINISTRATION
DAY/EVENING PROGRAMME**

RAC 304: ACCOUNTING FOR NOT- FOR –PROFIT ORGANIZATIONS

**AUGUST 2023
HOURS**

TIME: 2

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s).
4. Marks allocated to each question are shown at the end of the question.
5. PLEASE start the answer to EACH question on a NEW PAGE.
6. For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
7. Write your answers in paragraph form unless stated otherwise.
8. Keep your phone(s) SWITCHED OFF at the front of the examination room.
9. Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
10. You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE (COMPULSORY 30 MARKS)

- (a) Evaluate **two** objectives of accounting for Not- for- Profits Organization (4 Marks)
- (b) Highlight **two** differences between receipt and payment and income and expenditure accounts (4 Marks)
- (c) Below is the trial balance of Mbagathi High School on 31st December 2022.

	DR Ksh.	CR Ksh.
Furniture & fittings (Depreciation rate – 5%)	125,000	
Library books	175,000	
Buildings	2,750,000	
Investments	1,500,000	
Investment reserve fund		150,000
Sundry debtors and creditors	50,000	145,000
Entrance fees		152,000
Examination fees		24,000
Subscriptions received		200,000
Interest realized on investments		55,000
Staff salaries	102,000	
Taxes and insurance	8,000	
Examination expenses	6,000	
Subscriptions to periodicals	12,000	
Donations received		180,000
General expenses	17,500	
Accumulated fund		3,980,500
Cash at bank	73,000	
Cash at office	3,000	
Printing & stationery	10,000	
Repairs & maintenance	55,000	
Total	4,886,500	4,886,500

Provide for depreciation at the following rates:

Library	15% p.a
Furniture & fittings	5% p.a
Buildings	1% p.a

Required:

- (i) Prepare the Income and expenditure Account (6 Marks)
- (ii) Statement of financial position as at 31st December 2022 (6 Marks)

QUESTION TWO

(a) Define and explain the accounting procedure for the following items in relation to not-for-profit organizations

(i) Donations (4 Marks)

(ii) Subscriptions (4 Marks)

(iii) Life membership fees (4 Marks)

(b) Explain **four** differences between a limited company and a not for profit type of business (8 Marks)

(c) QUESTION THREE

(a) Explain **three** types of audits conducted by not-for profit organizations (6 Marks)

(b) During the financial year ended 30th June 2022, MLT university engaged in transactions that can be summarized as follows:

1. It collected Kshs. 35,892,000 in student fees, all applicable to the current year
2. It collected accounts receivable of Kshs.156,000 and accrued interest receivable of Shs.76,000. In addition it collected Kshs. 6,328,000 in contributions from its alumni and business partners
3. It had revenue of Kshs.17,250,000 (all in cash) from its two on-campus auxiliary enterprises
4. From its endowment investments, the university earned Shs.1,530,000 all of which was unrestricted
5. It awarded scholarships to graduate student accounts in the amounts of Kshs. 2,250,000. No services were required by the university upon receipt of the scholarship.
6. The university received unrestricted contributions of Kshs. 3,260,000, temporarily restricted contributions of Kshs. 4,800,000 and permanently restricted contributions of Kshs. 1,500,000. Of the amount Shs.2,000,000 was received in cash. Contributions receivable increased by Kshs. 7,560,000.

7. It paid Kshs.749,000 of its accounts payable and Shs.234,000 for the current installment of its long term debt
8. The university incurred the following expenses during the year: instructional Shs.12,389,000; research Kshs.16,750,000; student services Kshs.1,564,000; and auxiliary enterprises Kshs.9,200,000. Cash received was Kshs.38,000,000.
9. At year end, the fair value of investments increased by Kshs.614, 000. Of that amount, Kshs.400,000 increased unrestricted net assets, Kshs.200,000 increased temporarily restricted net assets, and Kshs.14,000 increased permanently restricted net assets.

Required: Prepare journal entries to record the above transactions **(14 Marks).**

QUESTION FOUR

- (a) Analyze the form and content of Financial Statement for Not-for-profit organizations as provided by the FASB 117 **(5 Marks)**
- (b) Explain the concept of Fund accounting and highlight three characteristics **(6 Marks)**
- (c) Define the **three** categories of funds used by Not for profit Organizations **(9 Marks)**