



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

BACHELOR OF EDUCATION

BACHELOR OF COMMERCE.

BAC 101: FUNDAMENTALS OF ACCOUNTING 11

DATE: 18/6/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

QUESTION ONE (30 MARKS)

- a) The following information relate to County Club for the year ended 31/12/2010

	Shs
Subscriptions received	50,000
Sale of Dinner ticket	8,000
Entrance fee received	12,500
Expense of annual dinner	24,300
Printing and Stationery	2,000
Cash balance 1/1/2010	14,200
Repairs	3,000
Furniture purchased	12,000

Required:

Prepare a Receipts and Payments Account. (4 marks)

- b) A, B and C have been in partnership sharing profits and losses in the ratio of 3:2:1 respectively, C retired a time when their statement of financial position was as follows

A,B and C partnership
Statement of financial position

Non-current assets

Land and buildings		2, 000,000
Plant and machinery		1,500,000
Motor vehicle		<u>1,200,000</u>
		4,700,000

Current assets

Inventory		1,300,000
Accounts receivable		5, 00,000
Cash		<u>5, 00,000</u>
		2,300,000

Current liabilities

Accounts payable	(5, 00,000)	<u>1,800,000</u>
		<u>6,500,000</u>

Financed by

Capital	A		3,000,000		
	B		2,000,000		
	C		<u>1,000,000</u>	6,000,000	
Current	A		200,000		
	B		200,000		
	C		<u>100,000</u>	<u>500,000</u>	
				<u>6,500,000</u>	

Partner C retired under the following conditions;

- i. Assets were revalued as under;

sh

Land and buildings	2,500,000
Plant and machinery	1,700,000
Motor vehicle	1,400,000
Goodwill	6, 00,000

- ii. A and B continue in partnership sharing profits and losses in the ratio of 2:1 respectively.
- iii. C took motor vehicle valued at sh 600,000. He was paid sh 400,000 of all that he was owed and the balance to remain as a loan at 10% interest.
- iv. Goodwill is written off in the new partnership.

Required

Prepare the relevant books of accounts to effect the partnership change and a statement of financial position after retirement (12 marks)

- c) London co.ltd offered 10,000 sh.1 ordinary shares for sale to public as follows:

Sh.0.25 on application

Sh.0.35 on allotment including share premium

Sh.0.30 on first call

Sh.0.25 on second call.

Applications were received for 10,000 shares, all of whom were approved by the directors and shares allotted. All shareholders paid allotment money and for first and second call.

Required:

Show ledger accounts to record the above transactions. (10 marks)

- d) Explain the following terminologies as used in manufacturing accounts (4 marks)

- i. Cost apportionment.
- ii. Manufacturing
- iii. Conversion costs.
- iv. Work in progress

QUESTION TWO (20 MARKS)

After preparing the comprehensive income statement for the year ended 31st December 2011, the following balances remained in the books of XYZ Ltd.

	DR (shs)	CR (shs)
Ordinary shares		1,000,000
12% Preference shares		500,000
15% Debentures		100,000
Land and buildings (cost)	900,000	
Plant and Machinery (cost)	700,000	
Motor Vehicles (cost)	400,000	
Furniture (cost)	130,000	
Provision for Depreciation (31st Dec.2011):		
Land and buildings		80,000
Plant and machinery		100,000
Motor vehicles		140,000
Furniture		60,000
Debtors and creditors	150,000	80,000
Prepaid insurance	20,000	
Interim Dividend: Ordinary	50,000	
Preference	30,000	
Cash at bank	27,500	
Debenture interest unpaid		7,500
Stock in trade	60,000	
General reserve		100,000
Retained Profit		40,000
Net Profit for the year 2011		260,000
	<u>2,467,500</u>	<u>2,467,500</u>

Additional Information:

- The authorized share capital of the company is sh.1.5 million, divided into 100,000 ordinary shares of shs.10 each and 50,000, 12% preference shares of shs.10 each.
- The directors have recommended that:
 - Shs. 50,000 be transferred to the General reserve.
 - The preference dividend balance be paid.
 - A final dividend of 5% on ordinary shares be paid.
 - Ignore Corporation tax.

Required:

- Prepare Appropriation of the profit and loss account for the year ended 31st Dec.2011. (8 marks)
- Statement of financial position as at 31st Dec.2011. (12 marks)

QUESTION THREE (20 MARKS)

Smith and Alex are partners sharing profits and losses in the ratio 2:1 respectively. The following trial balance was extracted from their books on 31st Dec.2011:

	DR.	CR.
Inventory (1.1.2011)	500,200	
Purchases and Sales	823,600	1,430,000
Returns	30,600	16,000
Wages	257,500	
Discounts	8,500	12,000
Insurance	17,500	
Heating and lighting	38,400	
Salaries	72,400	
Carriage Outwards	27,100	
Office expenses	7,200	
Loan interest	10,000	
Cash in hand	5,500	
Cash at bank	37,000	
Debtors and Creditors	224,800	195,500
Loan from CFC		200,000
Machinery (bought on 1.1.2010)	300,000	
Machinery bought on 1.7.2011	50,000	
Land and buildings	320,000	
Goodwill	30,000	
Capitals: Smith		570,000
Alex		430,000
Current Accounts: Smith		40,000
Alex	10,000	
Drawings: Smith	83,200	
Alex	<u>40,000</u>	
	<u>2,893,500</u>	<u>2,893,500</u>

Additional Information:

1. Stock on 31st Dec 2011 was valued at sh.470, 000.
2. On 31st Dec 2011 sh.12, 500 owed for wages.
3. Allow 10% P.a depreciation on Machinery at cost.
4. Interest on capitals at 5% and Drawings 10%.

Required:

- a) Comprehensive income statement including the appropriation account for the year ended 31st Dec. 2011. (10 marks)
- b) Partners' Current accounts. (4 marks)
- c) Statement of financial position. (6 marks)

QUESTION FOUR (20 MARKS)

Pima manufacturing firm provided the following balances on 31st December 2018.

	Shs, ('000')
Sales	1 000 000
Inventory: 1st January 2018:	
Raw materials	21 000
Finished goods	38 900
Work in process	13 500
Accounts receivable	142 300
Accounts payable	64 000
Wages: Direct	180 000
Indirect	145 000
Raw materials purchased	370 000
Carriage inwards on raw materials	3 500
Royalties	7 000
Production machines [cost]	280 000
Administration computers [cost]	20 000
Accumulated depreciation:	
Production machines	50 000
Administration computers	8 000
Factory power	13 700
General factory expenses	31 000
Lighting	7 500
Salaries: Salesmen	30 000
Administration	44 000
Salesmen commission	11 500
Insurance	4 200
Rent	12 000
General administrative expenses	13 400
Carriage outwards	5 900
Discount allowed	4 800
Bank charges	2 300
Bank	16 800
Cash	1 500
Drawings	60 000
Capital 1 st January 2018	357 800

Additional information

- 31st December 2018: inventory
 - Raw materials sh24 000
 - Finished goods sh40 000
 - Work in progress sh15000
- Insurance, rent and lighting expenses are to be apportioned:

Factory 80%

Administration 20%

3. Market value of finished goods sh950 000
4. Provide depreciation on production machines and administration computers e each at 10%pa on cost

Required

- a) Pima manufacturing account for the year ended 31st December 2018. (15 marks)
- b) The income statement for the year ended 31st December 2018 (5 marks)

QUESTION FIVE (20 MARKS)

The following are the financial statements of Villa Enterprises for the year ended 31st December 2019.

STATEMENT OF FINANCIAL POSITION

Assets

Land	8 800
Buildings	10 000
Plant and machinery	2 000
Accumulated depreciation:	
Buildings	(2000)
Plant and machinery	(800)
Investment (cost)	10 400
Inventory	11 000
Accounts receivable	8 000
Bank	<u>200</u>
	<u>47 600</u>

LIABILITIES AND CAPITAL

Ordinary shares of sh.20 each	8 000
Share premium	2 600
Profit and loss	9 000
10% debentures	16 000
Accounts payable	8 000
Propose dividends	<u>4 000</u>
	47 600

Income statement

	Shs.('000')
Sales	40 000
Cost of sales	<u>(20 000)</u>
Gross profit	20 000
Expenses (excluding interest)	<u>(12 000)</u>
Net profit	8 000
Dividends	<u>(4000)</u>
Retained Profit for the year	4 000
Retained profit B/f	<u>5 000</u>
Retained Profit C/F	9 000

Required:

- a)
 - i) Net profit margin (2.5 marks)
 - ii) Gross profit margin (2.5 marks)
 - iii) Current ratio (2.5 marks)
 - iv) Return on assets (2.5 marks)
 - v) Inventory turnover (2.5 marks)
 - vi) Return on Equity capital (2.5 marks)
- b) State five uses of ratio analysis as used in financial statement analysis. (5 marks)