



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF EDUCATION (ARTS)

BACHELOR OF COMMERCE

BACHELOR OF ECONOMICS

BAC 101: FUNDAMENTALS OF ACCOUNTING II

DATE: 30/8/2022

TIME: 2.00-4.00 PM

INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO questions**

QUESTION ONE (30 MARKS)

- a) X, Y & Z offered 100,000 shares of sh.10 at par payable as follows:-

Sh. 3 on application

Sh. 4 on allotment'

Sh. 3 on first and final call

Applications were received for 140,000 shares on 1/01/2008. Applications for 20,000 shares were rejected and application money refunded on 10/1/2008 to unsuccessful applicants. Shares were allocated to the remaining applications proportionately and excess money received from these applicants was retained against the allotment money due. The allotment was done on 20/01/2008. The first and final call was made and 20/02.2008. The call money was received on 1/3/2008.

Required:

Show the necessary entries to record the above matters in the respective ledger accounts

(7 marks)

- b) State three contents of a partnership deed as per the partnership act (3 marks)
- c) 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 Stationary	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)

- d) Explain the meaning of the following terms as used when accounting for business transactions
- i. Manufacturing
 - ii. Cost apportionment
 - iii. Conversion costs
 - iv. Direct costs
 - v. Paid up share capital. (5 marks)
- e) X and Y are partners who share profits and losses in the ratios 3:2 respectively. Their statement of financial position as at 31/12/2009 was as follows.

X and Y: Statement of financial position as at 31/12/2009

Non-current assets	Shs.	Capital Accounts	Shs.
Land and buildings	250,000	X	300,000
Plant and machinery	350,000	Y	300,000
Furniture and fixtures	<u>15,000</u>	Reserves	150,000
	615,000	Creditors	75,000
current assets	Shs.		
Stock	90,000		
Debtors	70,000		
Bank	<u>50,000</u>		
	<u>210,000</u>		
	<u>825,000</u>		<u>825,000</u>

On 1/1/2009, they admit Z as their partner on the following terms:-

- a) Z was to bring in sh.150,000 as capital and to pay sh, 50,000 as his share of goodwill which is to be retained on the business
- b) It was agreed to revalue certain assets before admitting z as follows:
- | | |
|----------------------|---------|
| Land and buildings | 300,000 |
| Plant and machinery | 325,000 |
| Furniture & fixtures | 20,000 |
| Stock (inventory) | 80,000 |
- c) The profit sharing ratio of X,Y, and Z will be 2:2:1 respectively

Required

- i. Show the entries in the revaluation A/C, capital A/C and bank A/C (8 marks)
- ii. Prepare a statement of financial position as at 1/1/2009 after the above adjustment (3 marks)

QUESTION TWO (20 MARKS)

- a) The summarized financial statements of bent limited for the year ended 30th June 2008 and June 2009 were as follows:

Income statements for the year ended 30th June

	2008	2009
	Sh “000”	sh “000”
Sales	240,000	320,000
Cost of sales	(180,000)	(230,000)
Gross profit	60,000	89,000
Operating expenses	(20,000)	(29,000)
Profit from operations	40,000	60,000
Interest payable	(4,000)	(8,000)
Net profit before tax	<u>36,000</u>	<u>52,000</u>

Statement of financial positions as at 30th June

	Sh “000”	“000)
Non-current assets at cost	280,000	288,000
Accumulated depreciation	(70,000)	(43,200)
	210,000	244,000

Current assets		
Inventory	72,000	80,000
Trade receivables	80,000	84,000
Prepaid expenses	<u>16,000</u>	<u>15,200</u>
	<u>168,000</u>	<u>179,000</u>
	<u>378,000</u>	<u>424,000</u>
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary shares of sh.20 each	160,000	160,000
Share premium	22,000	22,000
General reserves	32,000	36,000
Retained earnings	<u>28,000</u>	<u>34,000</u>
	<u>242,000</u>	<u>252,000</u>
Long term liabilities		
10% Debentures	40,000	80,000
Current liabilities		
Trade payables	64,000	68,000
Bank overdraft	<u>32,000</u>	<u>24,000</u>
	<u>136,000</u>	<u>172,000</u>
Total equity and liabilities	<u>378,000</u>	<u>424,000</u>

Required:

From the above financial statements, compute the following ratios ;(16 marks)

- i. Liquidity ratio
- ii. Acid test ratio
- iii. Gross profit margin
- iv. Return on capital employed
- v. Return on equity
- vi. Rate of stock turnover
- vii. Debtor's turnover
- viii. Debtor's collection period

b) State and briefly explain four importance of financial ratios.

(4 marks)

QUESTION THREE (20 MARKS)

a) Rhoda manufactures provided the following information on 31st December 2015.

	Sh.
Inventory materials on 1.1. 2015	
Raw materials	150,000
Work in process	80,000
Finished goods	120,000
Additional information	
Sales	1 900 000
Purchase of raw materials	260 000
Purchased raw materials- returned to suppliers	50 000
Rent	160 000
Office salaries	80 000
Direct labor	108 000
Salesmen salaries	65 000
Other direct expenses	15 000
Electricity	35 000
Advertising	90 000
Depreciation on factory plant	40 500
Carriage on raw – materials	45 000
Carriage outwards	35 000
Return outwards	40 000
Discount received	41 500

Additional information

1. Unpaid rent sh.10 000
2. Electricity and rent are to apportioned to factory and administration in the ratio of 2:3
3. Closing inventory:

Work in progress	sh. 60 000
Raw materials	sh. 50 000
Finished goods	sh.70, 000

Required

- i. I) Rhoda's manufacturing account for year ended on 31.12.2015. (10 marks)
II) Rhoda's income statement for the year ended 31.12.2015 (5 marks)
- ii. In the formation of a company, the promoters are supposed to submit a document called the articles of association. State five contents of this document. (5 marks)

QUESTION FOUR (20 MARKS)

MUTUA & KAMAU are in partnership sharing profits and losses in the ratio of 3:2. The following is the trail balance as at 30/09/2019.

	Shs	Shs
Buildings	160,000	
Fixtures at cost	8,200	
Provision for depreciation fixtures		4,200
Accounts receivable	61,400	
Accounts payable		26,590
Cash at bank	6,130	
Inventory at 30/09/2018	62,740	
Sales		363,111
Purchases	210,000	
Carriage outwards	3,410	
Discount allowed	620	
Loan interest: P prince	3,900	
Office expenses	4,760	
Salaries and wages	57,809	
Bad debts	1,632	
Allowance for doubtful debts		1,400
Loan from prince		65,000
Capitals: MUTUA		100,000
KAMAU		75,000
Current accounts :MUTUA		4,100
KAMAU		1,200
Drawings : MUTUA	31,800	
KAMAU	28,200	
	<u>640,601</u>	<u>640,601</u>

Additional information

- a) Inventory 30/09/2019 sh 74,210
- b) Accrued expenses
 - Office expenses sh.215
 - Wages sh.720
- c) Depreciate fixtures at 15% on reducing balance method and buildings at sh.5,000
- d) Reduce provision for doubtful debt to sh.1250
- e) MUTUA was entitled to a salary of sh.30,000
- f) Interest on drawings MUTUA sh.900
 - KAMAU sh.600

- g) Interest on capital at a rate of 5%
- i. Comprehensive income statement for the year ending 30/09/2019 (10 marks)
 - ii. Profit and loss appropriation account (3 marks)
 - iii. Statement of financial position as at 30/09/2019 (7 marks)

QUESTION FIVE (20 MARKS)

The trail balance extracted from the books of SHABIKI limited at 31/12/2003 was as follows

	Shs	Shs
Share capital		200,000
Retained profits 31/12/2002		27,000
Freehold premises 31/12/2002	271,000	
Provision for depreciation on free hotel premises at 31/12/2002		54,000
Machinery at cost	84,000	
Provision for depreciation on machinery account as at 31/12/2002		21,000
Purchase	563,700	
Sales		925,300
General expenses	14,600	
Wages and salaries	179,400	
Business rates	6,100	
Bad debts	1,400	
Electricity	4,800	
Allowances for doubtful debts at 31/12/2002		1,200
Accounting receivable	74,200	
Accounting payable		68,300
Inventory at 31/12/2002	81,900	
Bank balance	16,200	
	<u>1,297,300</u>	<u>1,297,300</u>

Additional information

- i. Inventory at 31/12/2003 was sh.94,300
- ii. Wages and salaries due at 31/12/2003 amounted to sh1,800
- iii. Business rates paid in advance at 31/12/2003 amounted to sh.700
- iv. A dividend of sh.20, 000 is proposed for 2003.
- v. The allowance for doubtful debts is to be increased to sh.1,500
- vi. A depreciation charge is to made on freehold premises of sh25,000and machinery at the rate of 25% p.a on cost

Required

- i) Comprehensive income statement for the year ended 31/12/2003 (10 marks)
- ii) Statement of financial position as at 31/12/2003 (10 marks)

