



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR
DIPLOMA IN ACCOUNTANCY

DACC 110: FINANCIAL ACCOUNTING I

DATE: 29/4/2019

TIME: 11.00-1.00 PM

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Using an example in each case, explain the three main methods of computing goodwill. (3 marks)
- b) Distinguish between a finance lease and an operating lease (4 marks)
- c) On 1st may, P. Burton sells goods to A. Smith valued at sh. 60,000. A. Smith accepts a bill of exchange for the amount payable in three months. On 1st June P. burton, being in need of money, discounted the bill with his bankers at 10% p.a discount. The bill is dully met at maturity. Show the following relevant entries in the ledger of P.burton.
- i) A smiths account
 - ii) Bills receivable A/C
 - iii) Discount charges A/C (8 marks)
- d) State any four limitations associated with financial Ratios (4 marks)
- e) Explain the following terminologies as used in Company Accounts (6 marks)
- i) Authorized share capital
 - ii) Memorandum of association
 - iii) Unlimited companies

- f) Explain the following terminologies as used in contract accounting:-
- i) Subcontracts
 - ii) Fixed price contracts
 - iii) Contract plant
 - iv) Direct expense
 - v) Architects certificate

QUESTION TWO (20 MARKS)

- a) Construction company was contracted by Migori county construct Leisure Park at a contract price of sh. 950 million. Retention money was agreed at 10% on work certified. The following details relate to the contract for the year ended Dec 2013.

	Shs
Balance b/f	“000”
- On site at 1/1/2013(materials)	4,500
- Accrued wages 1/1/2013	1,250
<u>Materials delivered to site</u>	
- From stores	14,600
- From suppliers	128,000
Additional plant	120,000
Subcontractor fee	18,450
Consultancy fee	28,000
Inspection fee	500
Salaries and wages	160,000
Head office expenses apportioned	1,200
Materials to other contract	15,000
Plant hire	250
Direct expenses	2,600
Materials from other contracts	400
Cash received from contractee	567,000
Work not certified	42,000
Materials c/f	51,000
Wages accrued c/f	2,800
The plant is depreciated at 12.5%	

Required:- i) contract account

ii) Work in progress A/C

iii) Contractee account

(16 marks)

b) State four contents of a partnership deed in accordance to the partnership Act. (4 marks)

QUESTION THREE (20 MARKS)

Smith and Alex are partners sharing profits and losses in the ratio of 2:1 respectively. The following trial balance was extracted from their books on 30/6/2017.

	Dr. Shs	Cr. shs
Stocks on 1/7/2016	50,020	
Purchase and sales	82,360	143,000
Returns inwards and outwards	3060	1,600
Wages	25,750	
Discounts allowed and received	850	1,200
Insurance	1,750	
Heating and lighting	3,840	
Salaries	7,240	
Carriage outwards	2,710	
Trade expenses	720	
Loan interest	1,000	
Cash in hand	550	
Cash at bank	3,700	
Debtors and creditors	22,480	19,550
Loan from industrial bank		20,000
Machinery 1/7/2016	30,000	
Machinery bought on 1/1/2017	5,000	
Land and buildings	32,000	
Goodwill	3,000	
Capitals: Smith		57,000
Alex		43,000
Current accounts: Smith		400
Alex	1,000	
Drawings: Smith	8,320	
Alex	<u>4,000</u>	
	<u>289,350</u>	<u>289,350</u>

The following additional information is available.

- a) Stock on 30/06/2017 was valued at sh. 47,000
- b) On 30/6/2017 sh.1,250 was owing for wages
- c) Allow 10% per annum depreciation on machinery.

Required:-

- a) Comprehensive income statement for the year ended 30/6/2017 (10 marks)
- b) Statement of financial position as at 30/6/2017 (10 marks)

QUESTION FOUR (20 MARKS)

- a) The following list of balances at 31/03/2018 was extracted from the books of Bachu Accounts.

Ordinary share capital

	Shs
Ordinary share of sh. 1 each fully paid	200,000
Share premium A/C	20,000
Retained earnings as at 31/3/2017	15,000
Cost of goods sold	350,000
Rates, light and heat	11,400
Telephone and postages	5,600
Salaries	21,000
Directors emoluments	12,000
Motor vehicle expenses	24,100
Sales	500,000
Debtors	21,700
Stock in trade at cost	38,000
Freehold property at cost	140,000
Fixtures and fittings at cost	120,000
Motor vehicles at cost	80,000
<u>Provision for depreciation</u>	
Fixtures and fittings	72,000
Motor vehicles	16,000
Balance at Bank	7,000
Creditors	7,800

Additional information:

- a) The authorized share capital of Bachu Limited is sh. 250,000
- b) The company's freehold property was valued at sh. 190,000 on 31/3/2018, the company's board of directors has decided that this valuation should be reflected in the books of accounts.
- c) i) Rates light and heat charges prepaid at 31/3/2018 amounted to sh. 2,300.
ii) Accrued charges at 31/3/2018 were

	shs
Telephone and postage	900
Motor vehicle expenses	300

- d) Depreciation is provided annually on the cost of fixed assets held at the end of accounting year as follows.
 - Fixtures and fittings 5%
 - Motor vehicles 20%
- e) In February 2018, the company sold motor vehicle which had been bought for sh. 8,000 in January 2017. The only entry in the company's books of account relating to the sale concerns the receipt of the sales proceeds of sh. 1500 which have been credited to the motor vehicle expenses A/C.
- f) The directors are recommending that a dividend of 15% be paid on the ordinary shares for the year ended 31/3/2018.

Required:-

- a) Comprehensive income statement for the year ending 31/3/2018. (10 marks)
- b) Statement of financial position as at 31/3/2018. (10 marks)

QUESTION FIVE (20 MARKS)

- a) The following are the financial statements of Kakamenga Ltd for the year ended 31/2/2005
Statement of financial position as at 31/12/2005

	Shs		shs
Cash	480,000	Trade creditors	860,000
Debtors	640,000	Short term notes payable	840,000
Stock	2,080,000	Long term debt	1,600,000
Equipment	<u>1,600,000</u>	Shareholders equity	<u>1,500,000</u>
	<u>4,800,000</u>		<u>4,800,000</u>

Income statement for the year ended 31/12/2005

	Shs	shs
Sales		6,000,000
Less cost of sales		<u>3,600,000</u>
Gross profit		2,400,000
Less selling expenses	600,000	
Administrative gen. expenses	1,120,000	
Interest charges	<u>235,000</u>	<u>(1,955,600)</u>
Profit before taxation		444,400
Taxation		<u>(177,760)</u>
Net profit		<u>266,640</u>

From the above information, compute the following Ratios

- i) Current Ratio
- ii) Acid text Ratio
- iii) Stock turnover ratio
- iv) Total assets turnover ratio
- v) Time interest earned ratio
- vi) Net profit margin
- vii) Return on investment
- viii) Total assets to shareholders equity
- ix) Return on shareholders' equity (15 marks)
- x) State five advantages of a bill of exchange (5 marks)