MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF EDUCATION

BACHELOR OF COMMERCE

BAC 101: FUNDAMENTALS OF ACCOUNTING II

DATE: 6/6/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) As an accountant of Bei zuri company, you have decided to compute the following accounting ratios after the end of a trading period:

i) Earnings per share ii) Inventory turnover

iii) Return on assets iv)Dividend yield.

Briefly describe the meaning and the purpose of calculating each of the above ratios (6 marks)

b) An entity prepares a statement of cashflows to show the sources of cash inflows and application of the cash for a specified financial year. Identify any two cash inflows specific to each of the following categories.

i) financing activities

ii) Operating activities

iii) investing activities (6 marks)

c) Explain the meaning of the following terms as used when accounting for limited liability companies.

i) Preference share capital ii)ordinary share capital

iii) corporation tax iv) General reserve (6 marks)

d) The following information relates to Akili Rotary club for the year ended 31 December 2016.

	1st January 2016	31st December 2016
	shs.	**shs.**
Subscriptions in advance	10 000	37 000
Subscriptions in arrears	65 000	85 000

Subscription received during the year sh. 1 987 000.

Prepare the club's subscription account for the year ended 31 December, 2016 (6 marks)

e) Explain the meaning of the following terms as used in financial accounting.

i) Manufacturing overheads

ii) Allotment of shares

iii) Goodwill

iv) Rights issue of shares (6 marks)

QUESTION TWO (20 MARKS)

a) The following information relates to the books of Ngonda limited for the year just ended 31/12/2014

	Shs
Profits after tax at 50%	1,084,000
Ordinary dividend paid	20%
The market price of ordinary shares	sh. 8.00
Total capital commitments	sh. 480,000
Issued share capital	
7% preference shares @ sh2.00 each	1,200,000

Ordinary shares of sh. 2.00 each	3,200,000

Required

i. Calculate the dividend yield (2 marks)
ii. Calculate the earnings yield (2 marks)
iii. The price earnings ratio (2 marks)
iv. Dividend cover (4 marks)

b) The following financial statements relates to ABC limited

ABC LIMITED

Statement of financial position

as at 31.3.2013

	Shs		Shs
Assets		**Liabilities and networth**	
Net fixed assets	285,750	Net worth	663,000
Current assets		Long-term debt (10%)	300,000
Stock	649,500	Other current liabilities	100,500
Debtors	270,000	Notes payable (9%)	54,000
Cash	28 500	Trade creditors	116,250
	1,233,750		1,233,750

Income statement for the year ended 31/03/2013

	Shs
Sales	1,972,500
Less: cost of goods sold	1,368,000
Gross profit	604,500
Less: selling and administration expenses	498,750
Earnings before interest and tax	105,750

Less: interest expense	34,500
Earnings before tax	71,250
Less taxation @ 40%	28,500
Earnings after tax	42,750

From the above information, calculate

i) Inventory turnover ratio (2 marks)

ii) Total assets turnover ratio (2 marks)

iii) Times interest earned ratio (2 marks)

iv) Net profit margin (2 marks)

v) Quick ratio (2 marks)

QUESTION THREE (20 MARKS)

The following list of balances at 31/03/2010 was extracted from the books of Excel limited

	Shs
Ordinary share capital –ordinary shares of sh 1.00	
Each fully paid	200,000
Share premium A/C	20,000
Retained earnings as at 31/03/2009	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
Provision for depreciation	72,000
Motor vehicles at cost	80,000
Provision for depreciation	16,000

Balance at bank	7,000
Creditors	7,800

Additional information

a) The authorized capital is sh.250,000

b) The company's freehold property was valued at sh. 190,000 on 31/03/2010 and the company's Board of directors has decided that this valuation should be reflected in the accounts.

c) i) Rates, light and heat charges prepaid at 31/03/2010 amounted to sh. 2,300.

ii) Accrued charges at 31/03/2010 were.

	Sh
Telephone and postages	900
Motor vehicle expenses	300

d) depreciation is provided annually on the cost of fixed assets held at the end of the accounting year as follows:- Fixtures and fittings 5%

Motor vehicles 20%

e) In February 2010, the company sold a motor vehicle which had been bought for sh. 8,000 in January 2007. The only entry in the company's books of account relating to the sale concerns the receipt of the sale proceeds of sh. 1,500 which have been credited to motor vehicle expenses.

f) The directors are recommending that a dividend of 15% be paid on the ordinary shares for the year ended 31/03/2010.

Required

i) A comprehensive income statement for the year ended 31/03/2010. (12 marks)

ii) A statement of financial position as at that date. (8 marks)

QUESTION FOUR (20 MARKS)

The treasurer of Ronda social club had prepared the following Receipt and payment accounts for the year ended 31st December 2016

Receipts	**sh**	**Payments**	**sh**
Cash and bank (1.1.2016)	11 410	Wages	30, 870
Deposit	36 400	Rent and rates	7, 000
31st December		Repair to pavilion	4, 900
Member subscriptions	31 370	Games and equipment	23, 450
Bar receipt	142 240	(New lawn mower less proceeds Of sales of old mower sh 3,150)	10,850
Surplus on dance	13 510	Bar purchase	106,680
Interest on deposit	1 960	Secretarial charges	3,290
Donation	980	Miscelenous expenses	3,500
Competition fee	1 260	Prizes	1,540
		Cash and bank	8,450
		Deposit	38,850
	239 470		**239 470**

The following additional information is provided

i) The other current asset and liabilities were as follows:

	1.1.2016	**31.12.2016**
Value of bar stocks at cost	9 170	7 700
Subscription due but not received	3 990	3 010
Creditor for bar supplies	2 800	2 310
Amount due for secretarial services	1 400	1 610
Miscellaneous expenses paid in advance	840	560

(ii) In January 2016 the book values of non- current assets were :

Pavilion sh101 500 (cost sh. 224,000) and lawn mower sh. 1050 (cost sh. 9,450)

(iii) The club provided depreciation on non-current asset on straight line basis at the rate of 10% per annum on pavilion and 20% per annum on new lawn mower and games equipment.

Required

(a) Statement showing the accumulated fund at 1st January 2016 (5 marks)

(b) An income and expenditure account for the year ended 31st December 2016. (8 marks)

(c) Statement of financial position as at that date (7 marks)

QUESTION FIVE (20 MARKS)

The following figures relates to the accounts YZ manufacturing for the year ended 31st December 2016.

Invenrory 1st January 2016	
Raw materials	3,186
Work in progress	2,745
Finished goods	4,264
Inventory at 31st December 2016	
Raw materials	4,479
Work in progress	3,621
Finished goods	9,651
Purchase of raw materials	23,766
Purchase of finished goods	2,431
Sales of finished goods	102,695
Rent and rates	3,292
Manufacturing wages	33,463
Factory power	1,765
Factory heating and lighting	1,237
Factory expenses and maintenance	1,819
Salaries and wages	22,870
Advertising	4,217
Office expenses	1,786
Depreciation of plant and equipment	2,450
Depreciation of office equipment	750

One half of salaries and wages and three quarters of rent and rate are to be treated as manufacturing charge

Required:

a) i) Manufacturing account for the year ended 31 December 2016. (9 marks)

ii) Income statement for the year ended 31 December 2016. (5 marks)

b) Discuss the importance of cash flow statement to an organization (6 marks)