MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DIPLOMA IN BUSINESS ACCOUNTANCY

DACC 110: FINANCIAL ACCOUNTING II

Date: 7/12/2015 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS TO CANDIDATES

- Answer **QUESTION ONE** and any other **TWO**
- Show all your workings
- Untidy work will be penalised
- Strictly adhere to examination regulations

QUESTION ONE (30Marks) (Compulsory)

a) A, B and C are in partnership sharing profits and losses in the ratio of 2:1:1. Interest on Capital is 5% per annum and interest in drawings is 4% per annum.

The following information relates to capital, current and drawings accounts of the partners.

	A	B	C
Capital (1.1.2010)	750,000	400,000	300,000
Current Account (1.1.2010) 50,000(Dr)	100,000	50,000	
Drawings (2010)	5,000	19,000	3,500

The profit and loss account showed a net profit of Ksh.600,000 before taking into account interest on capital and drawings and the following rectification of errors are to made.

Life insurance premium of A amounting to Ksh.7,500 paid by the firm on 31st December has been charged to miscellaneous expenditure account.

Repairs of Machinery amounting to Ksh.10,000 has been debited to machinery account and depreciation thereon has been charged at 20%.

Travelling expenses of Ksh.30,000 of B for leisure to Dubai paid by the firm on 30th June, 2010 have been debited to travelling expenses account.

Required:

Prepare Profit And Loss Appropriation Account for the year ended 31st December, 2010 and the Partners Current Accounts for the year. (20Marks)

b) Calculate the amount of Goodwill using capitalization method if the average profit is Ksh.900,000. The firm's normal rate of return on business is expected at 10% per annum and the firm's net assets is Ksh.600,000. (10Marks)

QUESTION TWO

a) The following figures are disclosed by the books of a contractor for year ending 31st December, 2008.

Work-in-progress as on December, 2008	Ksh.900,000
Less: Advances from Contractee as at December 2007	Ksh.500,000
	Ksh.400,000

The following transactions took place during the year

1. Material supplied to contract directly Ksh.100,000
2. Wages Ksh.80,000
3. Working Expenses Ksh.20,000
4. Material issued from store Ksh.150,000
5. Administrative Expenses Ksh.52,000 of which Ksh.2,000 are chargeable to general Profit and Loss Account.
6. Plant sent to Site Ksh.100,000
7. Material returned from site Ksh.20,000
8. Material returned to stores Ksh.30,000
9. Value of completed work Ksh.300,000
10. The value of work certified Ksh.500,000

11. Profit taken upon contract is Ksh.150,000
12. Advances from contractee Ksh.450,000

Required:

i. Prepare Contract Account and Contractee Account
ii. Show how the work-in-progress will appear in the balance sheet as on December 31st 2008. (20 marks)

QUESTION THREE

a) The books of Melaka Company Ltd revealed the following information of Comparative Financial Statements for December 2006 and 2005.

Melaka Company Ltd

Comparative Statement of Financial Positions

December 31st 2006 and 2005

Assets	2006	2005
Current Assets:	Ksh.'000'	Ksh.'000'
Cash	500	600
Accounts Receivable	30	40
Inventory	140	100
Prepaid Expenses	8	10
Total Current Assets	228	210
Long-term Assets	162	100
Accumulated Depreciation	(30)	(20)
Total Assets	360	290
Current Liabilities and Owner's Equity		
Current Liabilities:		
Accounts Payable	55	50
Salary Payable	35	45
Total Current Liabilities	90	95
Owners' Equity:		

Ordinary Shares	100	100
Retained Earnings	170	95
Total Liabilities and Owners' Equity	360	290

Melaka Company Ltd

Income Statement

December 31st 2006

	Ksh.'000'
Sales	645
Cost of goods Sold	400
Gross Profit	245
Less: Selling and Administrative Expenses	120
Income before Income Taxes	125
Income Tax Expense	50
Net Income	75

Required:

Prepare Cash Flow Statement for the year 2006 using indirect Method. (10Marks)

b) The following balance sheet of Midas Ltd as at 31st December, 2008

Assets	**Ksh.'000'**
Fixed Assets	17,600
Investment at Cost	3,000
Bank	350
	20,950
Capital and Liabilities	
Ordinary Shares of Ksh.100 each	10,000

8% Redeemable Preference Shares	5,000
Share Premium	700
Profit and Loss	1,750
Debentures	3,300
Creditors	200
	20,950

The following information is also available:

The preference shares were redeemed at a premium of 10% which was funded from the Share Premium.

To finance the redemption, the company issued 40,000 Ordinary Shares at par. The Authorized Ordinary Share Capital is 150,000 shares. Half of the investments were sold for Ksh.1,800,000.

Required:

i. Journal Entries to record the Redemption of preference shares.(6Marks)
ii. A statement of Financial Position after redemption of preference shares.(4Marks)

QUESTION FOUR

The following is the Trial Balance of Marengo Company Ltd as at 31 December 2010.

	Ksh.	Ksh.
Authorized Capital:		
50,000 Shares @ Ksh.100 each.		
Subscribed Capital:		
10,000 Shares of Ksh.100 per Share		1,000,000
Calls in Arrears	64,000	
Land	100,000	
Buildings	250,000	
Plant and Machinery	150,000	

Furniture and Fixtures	32,000	
Carriage Inwards	23,000	
Wages	214,000	
Salaries	46,000	
Provision for Bad debts (1st January 2010		14,000
Sales		800,000
Sales Returns	17,000	
Bank charges	1,000	
Electricity and Water	7,000	
Rates and Taxes	8,000	
Purchases	500,000	
Purchase Returns		34,000
Bills receivable	12,000	
General Expenses	19,000	
Sundry Debtors	428,000	
Sundry Creditors		132,000
Stock 1st January 2010	250,000	
Insurance	4,000	
Cash at Bank	130,000	
Cash in Hand	25,000	
Share Premium		60,000
General Reserve		240,000
	2,280,000	2,280,000

The following information is also available:

i. Charge depreciation on Building at 2.5%, on Plant and Machinery at 10% and on Furniture and Fixtures at 10%. Make a Reserve of 5% on Sundry Debtors for Bad Debts.
ii. The following expenses were due
    - Insurance Ksh.1,200
    - Wages Ksh.32,000
    - Salaries Ksh.5,000
    - Rent and Rates Ksh.2,000

Required:

Prepare Income Statement and Statement of Financial Position (20Marks)

QUESTION FIVE

a) Explain five circumstances under which goodwill can be computed. (10Marks)
b) Explain five differences between Hire Purchase and Credit Purchase. (10Marks)