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

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE

BACHELOR OF EDUCATION

BACHELOR OF ECONOMICS

BAC 101: FUNDAMENTALS OF ACCOUNTING II

DATE: 29/4/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) A and B are partners who share profits and losses in the Ratios 3:2 respectively. Their Statement of financial position as at 31/12/2009 appeared as follows.

Statement of financial position

Capital accounts		shs	fixed assets		shs
A	300000		Land and buildings		250,000
B	300,000	600,000	Plant and machinery		350,000
Reserves		150,000	Furniture and fixtures		15,000__
Creditors		75,000			615,000
			Current Assets	sh	
			Stock	90,000	
			Debtors	70,000	
			Bank	50,000	210,000
		825,000			825,000

On 1/1/2010, they admit Z as their partner on the following conditions:

i) 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 in the business.

ii) It was agreed to revalue certain Assets before Admitting Z as follows:

	Shs
Land and buildings	300,000
Plant and machinery	325,000
Furniture and fittings	20,000
Stock	80,000

iii) The profit sharing Ratio of A:B:Z will be 2:2:1 respectively:-

<u>Required:</u>

Show the entries in the following accounts:-

i. Revaluation A/C
ii. Partners capital accounts
iii. Bank A/C (10 marks)

b) Giving at least three specific examples in each case, explain the following terminologies as used in cash flow statements (6 marks)

i. Cash flow from operating activities
ii. Cash flow from investing activities
iii. Cash flow from financing activities

c) The following information relates to Mashambani football club for the year ending 31/12/2013

Receipts and payments

	shs		shs
Cash in hand	3400	Bank bal b/f	5680
Subscriptions	50,000	Stationery and printing	17250
Bar receipts	39,900	Electricity	2,310
Bank bal c/f	4,840	Wages	23,480
		Insurance	4,000
		Sports equipment	6,000
		Repair to equipment	7,500
		Telephone and postage	1,660
		Refreshment	20,000
		General expenses	3,500
		Advertising	1,960
		Cash in hand c/d	4,800
	98,140		98,140

Additional information

i)

	1/1/2013	31/12/2013
	shs	shs
Promises	100,000	80,000
Club furniture	15,000	13,500
Sports equipment	10,000	12,800
Barman's wages outstanding	600	750
Subscriptions outstanding	900	700
Repairs to sports equipment due	1200	860
Refreshment stock	3000	1950
Insurance prepaid	160	80
Subscriptions paid in advance	400	240

ii) The accumulated fund at 31/12/2013 was 122,260

iii) The sales and purchases relating to the bar were sh. 39,900 and sh. 17,600 respectively:

Required: Income and expenditure A/C (6 marks)

d) State any four limitations associated with financial Ratios (2 marks)

e) Explain the three manufacturing costs incurred in a manufacturing business. (6 marks)

QUESTION TWO (20 MARKS)

The following is Mr. Hustlers transactions for the year ended 31/12/2013

	Dr. Shs	Cr. shs
Capital		126,120
Payables		86,000
Bank	5400	
Receivables	92,000	
Returns	60,000	45,000
Administrative expenses	150,360	
Advertisement	12,000	
Factory direct expenses	60,000	
Factory indirect wages	24,000	
Factory power wages	36,000	
Furniture and fittings (official)	18,400	
Heating	16,000	
Plant	276,800	
Vehicle (used by salesmen)	144,000	
Plant hire	4,000	
Provision for bad debts		3,200
Provision for depreciation: Furniture		9,200
: Plant		138,400
: Vehicle		24,000
Purchase of raw material	228,000	
Rent	20,000	
Sales		829,440
Selling and distribution expenses	66,400	
Inventories: 1/1/2013: raw materials	8,000	
Work in progress	16,000	
Finished goods	24,000	
	1,261,360	1,261,360

Additional information:

i) Accrued factory power and rent were sh. 1,600 and 4,000 respectively.

ii) Inventories at 31/12/2013:

raw materials	15,200
Work in progress	30,400
Finished goods	45,600

iii) Provide depreciation on straight line method to plant, vehicle and furniture at 20%, 25% and 10% P.a.

iv) Provision for bad debts is to be made equal to 5% of accounts receivable at January 2013.

v) Expenditure on heating & rent is to be apportioned between factory and offices in the ratio 9:1 and 3:2 respectively.

vi) Salesmen motor vehicle insurance is prepaid at sh. 8,000.

Required

Manufacturing account, comprehensive income statement and a statement of financial position as at 31/12/2013 (20 marks)

Q3. Mohammed and James, traders in partnership as transporters, wholesalers and distributors, closes their accounts on 30/04/each year. Their trial balance as at 30th April 2013 appeared as follows:

	Shs	shs
Capital accounts: Mohamed		2,500,000
James		1,500,000
Motor vehicle at cost	25,000,000	
Provision for depreciation motor vehicle		7,500,000
Provision for bad debts		250,000
Debtors and creditors	8,500,000	4,400,000
Salaries and wages	1,500,000	
Transportation income		1,200,000
Sales and purchases	40,800,000	61,450,000
Returns outwards & inwards	2,250,000	4,500,000
Inventory on 1/5/2012	10,650,000	
Rent	180,000	
Water and electricity	48,000	
Telephone and postage	108,000	
Printing and stationery	54,000	
Petrol and oil	5,480,000	
Servicing and spares	2,025,000	
Legal fees expenses	150,000	
Insurance	730,000	
Current Accounts:		
Mohammed		450,000
James	290,000	
Loan and overdraft interest	753,000	
Bank charges	121,500	
Bank overdraft		2,550,000
Bank loan		1,540,000
	98,640,000	98,640,000

Additional Information

1. Salary at sh. 150,000 per month should be credited to the account of James.
2. Parties are entitled to interest on capital at 12% p.a.
3. Profits and losses are to be shared equally after allowing for partners salary and interest on capital.
4. Motor vehicles are to be depreciated at the rate of 25% p.a. using the straight-line method.
5. Provision is to be made for accounting and auditing fees at sh. 560,000.
6. Bad debts amounting to sh. 440,000 are to be written off.
7. Provision for bad debts should be increased by sh.60,000
8. Stocks as at 30/04/2013 were valued at sh.10,750,000

Required:

a) Comprehensive income statement including appropriation of profit and loss A/C for the year ended 30/4/2013. (13 marks)

b) Statement of financial position as at 30/4/2013. (7 marks)

QUESTION FOUR (20 MARKS)

a) Distinguish between Authorized share capital and Issued share capital. (2 marks)

b) The trial balance of Jireh Limited as at 31/12/2009 was as follows.

	Dr. Shs "000"	Cr. shs "000"
Share capital (10,000 sh. 20 ordinary shares)		200
Purchases	1,220	
Sales		2,400
Debtors	4,000	
Creditors		3,740
Profit and loss (1/1/2009)		380
Plant at cost	1440	
Provision for depreciation: plant		400
Buildings		40
Building at cost	800	
Returns inwards	40	
Returns outwards		80
Selling expenses	140	
Bank		160
10% debentures		600
Stock (1/1/2009)	300	
Provision for bad debts		20
Operating expenses	180	
Administrative expenses	140	
Share premium		200
	8,220	8,220

Additional information

1. Stock as at 31/12/2009 was sh. 360,000
2. Debentures interest has not been paid.
3. Depreciation on plant is 10% on cost and buildings at 20% on cost.
4. Directors propose to pay a dividend of sh.2 per share and transfer sh. 20,000 to general reserves.
5. Corporation tax is at the rate of 30% on profits.
6. Accrued selling expenses amount to sh. 30,000 while prepaid administrative expenses are sh. 40,000
7. Provision for bad debts is set at 5% of debtors.

Required

a) Comprehensive income statement for Jireh for the year ended 31/12/2009. (10marks)

b) Statement of financial position as at 31/12/2009. (8 marks)

QUESTION FIVE (20 MARKS)

a) The following are the financial statements of Mambo vipi account for the year ended 31/10/2017.

STATEMENT OF FINANCIAL POSITION

		Shs "000"
Assets		
Investments at cost		10,400
Land		8,800
Plant and machinery at cost		2,000
Buildings		10,000
Stock		11,000
Debtors		8,000
Bank		200
		50,400
LIABILITIES AND CAPITAL		
Ordinary shares of sh. 20 each		8,000
Share premiums		2,600
Revaluation reserve		-
Profit & loss A/C		9,000
10% debentures		16,000
Accumulated depreciation		
Plant and machinery	800	
Buildings	2,000	2,800
Creditors		8,000
Proposed dividends		4,000
		50,400

Profit and loss account

	Shs
Sales	40,000
Cost of sales	(20,000)
Gross profit	20,000
Expenses (including interest)	(12,000)
Net profit	8,000
Dividends	(4,000)
Retained profit	4,000
Profit b/d	5,000
Profit c/d	9,000

Required

i) Gross profit percentage
ii) Net profit percentage
iii) Debtors turnover
iv) Creditors turnover
v) Current Ratio
vi) Return on investment
vii) Acid test ratio
viii) Stock turnover ratio
ix) Dividend cover
x) Debtors collection period (15marks)

b) Distinguish between income and expenditure A/C and receipts and payments Account (5 marks)