MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 101: FUNDAMENTALS OF ACCOUNTING II

DATE: 26/7/2019 **TIME: 11.00-1.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (30 MARKS) (COMPULSORY)

a) Partners wishing to start a partnership must agree on how to run their business and thus prepare a partnership agreement (deed).List **six** main particulars/items that must be included in such partnership deed. (6 marks)

b) As the director of Misemo Manufactures, recommend a criteria for apportioning each of the following manufacturing costs.

i. Supervisor costs.

ii. Depreciation on non-current assets.

iii. storage costs

iv. Rental charges (6 marks)

c) Jambo limited issued 100 000 ordinary shares of sh 20 each as follows.

Application	sh.9
Allotment	sh.6
First and final call	sh 3

All the shares were applied for and money paid on due dates.

Required:

Prepare relevant journal entries to record the issue. (6 marks)

d) Identify three differences between each of the following:

i. Public limited company and private limited company (3 marks)

ii. Ordinary shares and preference shares (3 marks)

e) Briefly describe **four** reasons for charging goodwill when selling a business as going concern. (6 marks)

QUESTION TWO (20 MARKS)

a) Milele sana manufactures provided the following information on 31st December 2018.

	Shs.
Inventory- 1.1.2018	
Raw materials	150 000
Work in process	80 000
Finished goods	120 000
Additional information	
Raw materials - purchased	260 000
Rent	160 000
Office salaries	80 000
Direct labor	100 000
Sales	1 900 000
Salesmen salaries	65 000
Other direct expenses	15 000
Discount received	41 500
Returns outwards	40 000
Electricity	40 000
Advertising	90 000
Depreciation on factory plant	40 500
Purchased materials –returned to suppliers	50 000
Carriage on raw-materials	45 000
Carriage outwards	35 000

Additional information

i) Unpaid direct labor cost she 8 000
ii) unpaid rent sh 10 000 and prepaid electricity sh 5 000
iii) Electricity and rent are apportioned to factory and administration in the ratio of 2:3

iv) Inventory on 31.12.2018:

Work in process	sh 60 000
Raw materials	sh 50 000

Required

Prepare the manufacturer's production cost statement for year ended 31.12. 2018. (12 marks).

b) As the accountant of Bora Bora company. You always prepare the cash flow statement as par the requirement of IAS 7. State the **three** main activities recorded in the statement and indentify t**wo** cash inflows under each activity. (8 marks)

QUESTION THREE (20 MARKS)

The following information was obtained from the books of Mimo club for the year ended 31st December 2017

1st January 2017 balances

Sport equipment Shs24 000

Furniture shs 50 000

Unpaid subscriptions sh 1200

Subscriptions paid in advance sh 1 000

Unpaid repairs sh 2 500

Mimo club
Receipts and payments account
As at 31st December 2017

Bal b/f	14 200	furniture- purchased	12 000
Subscriptions received	50 000	printing	2 000
Entrance fee	12 500	Annual dinner expenses	14 300
Sales from dinner tickets	8 000	repairs	3 000
	_____	Balance C/F	53 400
	84 700		84 700

The following additional information is also provided:

i. Unpaid subscriptions (31, 12. 2017) sh 800
ii. Subscriptions paid in advance (31.12.2017) sh 600
iii. Depreciation is provided at 10% on all assets

Required:

a) Calculate the accumulated fund on 1st January 2017 (4 marks)

b) Subscription account or the year (5 marks)

c) Income and expenditure account for the year ended 31.12.2017 (5 marks)

d) Statement of financial position as at 31.12.2017 (6 marks)

QUESTION FOUR (20 MARKS)

Yoyo limited provided the following balances on 31st December 2016

	Dr.	Cr.
80,000 ordinary shares		800,000
12% preference shares		600,000
8% debentures		400,000
Sales and purchases	300,000	1050,000
Debtors and creditors	227,000	56,000
Provision for doubtful debts		5,000
Returns	50,000	20,000
Insurance	40,000	
Salaries	120,000	
Buildings	1,400,000	
Plant and machinery	350,000	
Motor vehicle	250,000	
Provision for depreciation:		
Buildings	80 000	
Plant and machinery	70 000	
Motor vehicles	100 000	
Directors fee	25,000	
Commission	76,000	15,000
Bad debts	15,000	
Bank	280,000	
Goodwill	450,000	
Discount	38,000	
Profit and loss		500,000
Stock 1.1.2016	50,000	
Vehicle expenses	30,000	
	3,446,000	**3446,000**

Additional information

1. Shs. 2,000 of debtors were declared bad and written off; the provision is to be adjusted to 2.5% of the remaining debtors
3. Unpaid insurance is sh. 2,000; prepaid salaries were sh. 20,000
4. Corporation tax rate is at 30%
5. The directors have recommended:

    A transfer of sh. 2,000 to general reserves

    Payment of preference dividends

    To pay sh. 0.20 dividend per ordinary share

Prepare

a) Income statement for the year ended 31.12.2016. (10 marks)

b) Statement of financial position as at 31.12.2016. (10 marks)

QUESTION FIVE (20 MARKS)

Amina Betty and cosmas have been trading in partnership sharing profits and losses in the ratio of 2:2:1 respectively. The following information relates to the partnership during the year ended 31st December 2015

Net profit		3 500
Capital accounts:	Amina	2 000
	Betty	4 000
	Cosmas	2 000
Current account:	Amina	200
	Betty	100
	Cosmas	200
Drawing	Amina	200
	Betty	380
	Cosmas	420
Non-current assets		2 300

Additional information

1. Interest on capital is allowed at 10% per annum
2. Interest is charged on drawing at 5%
3. Amina retired on 1st January 2016 and all the amounts due to her were transferred to a retirement account to be paid later
4. Betty and Cosmas will continue with business profit sharing losses equally
5. Non-current assets were revalued to sh. 2 750 000

Goodwill was valued at sh. 800 000 and was not to be maintained in the books of accounts

Prepare

a) A profit and loss appropriation account for the year ended 31 December 2015 (6 marks)

b) Partners current accounts as at 31st December 2015 (8 marks)

c) Partners capital account as at 1st January 2016 (6 marks)