MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 101: FUNDAMENTALS OF ACCOUNTING II

DATE: 27/9/2019 **TIME: 8:30 - 10;30 AM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY)

a) Non- profit-making organizations are set up to improve the welfare of the members. Describe the three main sources of their capital. (6 marks)

b) A partnership is a mutual agreement between partners who prescribe their relationship in a partnership deed. Clearly state four particulars of partnership deed. (6 marks)

c) Manufacturing businesses prepare manufacturing accounts (production Statement) to establish the cost of goods produced. Identify three costs under each of the following categories.

i) Direct costs ii) indirect costs (6 marks)

d) Explain the meaning of the following terms as used when issuing shares.

i) Issued share capital.
ii) Nominal value of shares.
iii) Share premium.
iv) Call in arrears.

e) A cashflow statement is prepared according to IAS 7 to show sources and application of cash and cash equivalent for a given financial year. Identify the three main activities included in a cash flow statement, stating two cash outflows under each activity. (6 marks)

QUESTION TWO (20 MARKS)

Roma manufacturing company provided the following information for the year ended 31st December 2018.

Inventory 1.1.18	**shs**
Raw materials	40,000
Work in process	12,000
Finished goods	20,000
On 31.12.18	
Raw materials	35,000
Work in progress	17,000
Finished goods	23,000
Raw materials bought in month of February	230,000
Transport on raw materials	20,000
Direct wages	70,000
Supervisors salary	30,000
Direct expenses	10,000
Factory rent	10,000
Office salaries	13 000
Salesmen salaries	18,000
Factory power	5,000
Sundry office expenses	7,000
Sundry factory expenses	15,000
Sundry selling expenses	6,000
Sales	500,000

Prepare

i) Manufacturing Account for the year ended 31st December 2018 (12 marks)

ii) Income statement for the year 31st December 2018. (8 marks)

QUESTION THREE (20 MARKS)

a) Sarah and John are partners in business sharing their profits and losses in the ratio of 3:2 respectively. Their statement of financial position as at 31st December 2017 showed the following net amounts.

Non- current assets		3 500 000
Current assets		1 500 000
		5 000 000
Financed by: Capital accounts;	Sarah	3 000 000
	John	2 000 000
		5 000 000

On 3rd January 2018, they admitted James into the business and agreed on the following:

i) James to contribute shs 2 500 000 as capital

ii) Non- current assets to revalued at shs 3504 000 and current assets to revalued at sh 1 502 000

iii) No salary was to be paid to a partner just like in the former business

iv) Good will for the year was shs. 360 000

Required:

i) Revaluation account (4 marks)

ii) Partners' capital accounts on 1st January, 2018 (5 marks)

iii) Statement of financial position as at 1st January 2018 (6 marks)

b) A public company allows individuals to subscribe to its shares, as a source of capital financing. Clearly describe five differences between preference shares and ordinary shares (5 marks)

QUESTION FOUR (20 MARKS)

The following is a receipts and payment summary belonging to Linoa club on 31st December 2018.

Purchased equipment	600
Repairs to equipment	140
Cash (1.1.2018)	2 800
Cash (31.12.2018)	10 880
Proceeds from refreshments	31000
Cost of refreshment	20 000
Secretarial expenses paid	160
Paid rent for playing field	2 400
Paid for stationery	100
Cash collected during matches	8 600
Wages paid to grounds man	8 000
Miscellaneous expenses	120

Additional information

i) Rent paid in advance was sh.600

ii) Unpaid stationery at the end of the year was sh.40

iii) At 1st January 2018 equipment was valued at sh. 3000

iv) Depreciate all equipment at 10%

prepare:

i) Receipts and payments account for the year 2018 (6 marks)

ii) Income and expenditure account for the year 2018 (8 marks)

iii) Statement of financial position as at 31st December 2018 (6 marks)

QUESTION FIVE (20 MARKS)

On 5th February 2017,Lolly limited issued 10,000 ordinary shares of sh, 10each payable as follows:

20.2.2017. Application sh. 7

12.3 2017 Allotment sh. 4(including premium)

27.3.2017 First and final Call sh 1

Applications were received for 11000 shares. Allotment was made on pro-rota basis.

All monies were received. A share holder with 500 shares paid the call money together with the allotment.

a) Prepare journal entries to record the above transactions (14 marks)

b) Ratios are tools used to analyse financial statements . Describe four uses of ratio analysis. (6 marks)