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

SECOND SEMESTER EXAMINATION FOR BACHELOR OF EDUCATION

FUNDAMENTALS OF ACCOUNTING II

Date: SCHOOL BASED **Time:**

INSTRUCTIONS:

QUESTION ONE

(a) Explain the following terminologies as used in cash flow statements.
- (i) Cashflow from operating activities (2 marks)
- (ii) Cashflow from investing activities (2 marks)
- (iii) Cashflow from financing activities (2 marks)

(b) A company issued 50,000 shares of sh.10 each at sh.13 on January 1st 2010.

Required:Show the relevant ledger accounts.[5marks]

(c) Explain three methods that are used in estimating good will in partnership accounting.[6 marks]

(d) Explain the following terms in relation to manufacturing:
- i. Manufacturing. (1 mark)
- ii. Conversion costs. (1 mark)
- iii. Direct costs. (1 mark)
- iv. Cost apportionment. (1 mark)

(e) The following information was extracted from the books of Musa and Kalaha who are partners in a firm, sharing profits and losses equally, as at 30th June 2008 .

<u>Balance sheet as at 30th June 2008</u>

Asset	Shs.	Capital & liabilities	Shs.
Premises	900,000	Musa	750,000
Equipments	300,000	Kalaha	750,000
Furniture	135,000		-
Stock	150,000	Creditors	240,000
Debtors	75,000		
Bank	180,000		
	1,740,000		1,740,000

On 1 July 2008, they admit Kahi into the partnership on the following terms;

i. Kahi to bring capital of Shs. 750,000 and goodwill of Shs. 150,000 which was to be shared by the old partners in their profit sharing ratio.
ii. Asset were revalued as follows:

	Shs.
Equipment	225,000
Premises	1,020,000
Furniture	97,000
Stock	180,000

iii. Provision for bad debts amounted to shs. 6,000
iv. Creditors were revalued at shs. 180,000
v. The new profit/loss sharing ratio was to be 2: 2: 1, respectively.

Required:

a) Revaluation account. (3 marks)

b) Partners' capital account. (3 marks)

c) Bank account. (2 marks)

d) Balance sheet after admission of new partners. (7 marks)

QUESTION TWO

(a). What are the disadvantages of using ratios in the evaluation of business performance(10 marks)

(b).electric link ltd hasgiven you the following figures for its year 2006 accounts.

For the first year ended 31st December 2006	shhs
Gross profit	797,000
Net profit before tax	255,000
Corporation tax	76,500
Turnover	2,743,000
As at 31st December 2006	
Shareholders funds	1,335,000
Total tangible assets	2,008,000
Total current assets	32,000
Current liabilities	25,000
Long term loans	648,000
Non-liquid current assets	19,000

Required:

Compute the following ratios:-

i. Current ratio. (2 marks)
ii. Liquidity ratio. (2 marks)
iii. Gross profit margin. (2 marks)
iv. Return on capital employed. (2 marks)
v. Debt/Equity ratio. (2 MARKS)

QUESTION THREE

The treasurer of Small & Lovely has provided the following information for the year ended 31st December 2005

<u>RECEIPT & PAYMENT ACCOUNT</u>

Dr Receipt	**Shs.**	**Shs.**	**Payment Cr**	**Shs**	**Shs**
Balance b/f 70,000		31,000	Salaries		
Subscriptions			Rent& rates		35,000
2004 125,000	500		Offices expense		
2005	60,000		Social entertainments		80,000
2006	1,500	6,200	Income tax		50,000
Donation to					
Building fund/		32,000	Investments		100,000
Social					
Entertainments		290,000	Bal c/d		<u>10,000</u>
Bar takings		<u>55,000</u>			
		470,000			470,000

The following further information was given:

	1st January 2005 Shs.	**31st December 2005 Shs.**
Rate & rate paid in advance	1500	1000
Subscriptions in arrears	500	6000
Subscriptions paid in advance	2000	1500
Rent & rate due	5000	-
Accumulated fund	101000	?
Building fund	225000	?
Investments	300000	?

Required:

a) Income & expenditure account for the year. (12 marks)

b) A balance sheet as at that date. (8 marks)

QUESTION FOUR

The following is the trial balance A & B who were in partnership sharing profit and loses equally.

PARTICULARS	**DEBIT** **Shs.**	**CREDIT** **Shs.**
Capital account A		300,000
B		100,000
Current account A		30,000
B		50,000
Sales & Purchases	1,110,000	2,000,000
Opening stock	300,000	
Wages	145,000	
Rent	50,000	
General expenses	30,000	
Electricity	12,000	
Debtors & creditors	140,000	115,000
Carriage outwards	53,000	
Drawing A	70,000	
B	90,000	
Cash	45,000	
Fixed assets	560,000	
	2,605,000	2,605,000

Additional information

i. Closing stocks were valued at Ksh. 400,000.
ii. Wages Accrual amounted to Ksh. 5,000 and Rent prepaid amount to Ksh. 10,000.
iii. Jua took goods worthy Ksh. 4,000 for his own used.
iv. Depreciation to be provided at 2.5% p.a.
v. The partnership agreement provides;
   a) Allow annual salaries of Ksh. 200,000 to A and Ksh. 400,000 to B.
   b) Allow 5% interest o capital.
   c) Charge, A Ksh. 2,000 and B Ksh. 3,000 interest on drawings.

Required:

a) Trading profit and loss appropriation account (12 marks)

b) Balance sheet as at the same (8 marks)

QUESTION FIVE

The following are the balances in the books of ABClimited as at 31 december 2007.

Particulars	**DEBIT SHS**	**CREDIT SHS**
10,000 ordinary shares of Ksh. 10 each.		100000
1,000 8% preference shares of Ksh. 10 each.		40000
Profit and loss account		10000
Sales and purchases	250000	1000000
Discounts	5000	12000
Motor vehicle (cost Ksh. 100,000)	85000	
Plant (cost Ksh. 100,000)	80000	
Free hold property (land 600,000)	1000000	
Electricity	50000	
Rent and rates	40000	
20% Debentures		200000
Accrued tax on (1/1/07)		75000
Debtors and creditors		300000
Bank		100000
Cash	10000	
Provision for bad debts		88000
Debenture interest	25000	
Salaries	160000	
Returns	20000	45000
	2000000	2000000

Additional information

(I) Closing stock were valued at kshs 40,000

(II) Accrued electricitrykshs 13000 and prepaid rates ksh 8000

(III) Co-operation tax is at the rate of 30

(IV) Bad debts ofkshs 50000 to be written off and provision for bad debts to be adjusted at 30% of debtors.

(V) Depreciate motorvehicl e12% building 15% all cost.

(VI) Outsatnding salaries amounted to kshs 18,000

(VII) The director proposed:

-a transfer kshs 120,000 to general reserves

- tay preference dividends and to pay kshs 2/= per ordinary share.

Required:

(A) Trading profit andlossappropriationaccount. (12marks)

(B) Balance sheet. (8 marks)