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

EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE (ACCOUNTING OPTION)

BAC 405: ACCOUNTING THEORY

Date: 9/8/2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

(a) Discuss the arguments for the need for an accounting theory. [4marks]

(b) The following is a balance sheet of Breda,Hoggia and Sheila who share profit and losses equally 31st march 2004.

non-current assets	*shs*	shs
Goodwill		1,500,000
Premises		1,800,000
Plant and machinery		1,400,000
Motor vehicle		470,000
Investements		1,130,000
		6,300,000
Current assets		
Stock	1,710,000	

Debtors	990,000	**2,700,000**
Total assets		9,000,000
capital and liabilities		
capital accounts		
Brenda	2,000,000	
Hoggia	2,500,000	
Sheila	700,000	**5,200,000**
Current accounts		
Brenda	**-**	
Hoggea	**500,000**	
Sheila	300,000	800,000
Non-current liabilities		
Bank loan		**1,500,000**
Current liabilities		
Creditors	**1,200,000**	
Bank overdraft	**300,000**	**1,500,000**
		9,000,000

They agreed dissolve their partnership on that date and the following steps were taken:

(i) Premises were sold for shs 800,000, plant and machinery for shs.600,000 and stock for shs 810,000

(ii) One of the motor vehicle was taken over by Brenda at an agreed value of shs 100,000 and the remaining was sold for shs 130,000.

(iii) Investments were taken over by hoggla at an agreed value of shs.800,000.

(iv) Bank loan was taken together with 10% accrued interest while 10% cash discount was received on settling creditors.

(v) Dissolution expenses amounting to shs 60,000 were paid in cash by hoggla.

(vi) Sheila is insolvent and is able to contribute only shs 450,000 towards her deficiency.Her share of deficiency is borne by Brenda and hoggla according to Garner Vs Murray rule.

(Vii) Debtors were realized in full.

Required

(a) Partners capital account

(b) Cash and bank accounts

(c) Realisation account (20 marks)

(c) Discuss the objectives of financial reporting. (6 marks)

Question Two

The trial balance of Quartz plc 31st December 2003 was as follows:

	KSH	KSH
Preference share capital sh 1 shares		200
Ordinary share capital: sh 1 share		1000
Exchange reserve		75
General reserve		150
Retained profits31.12.2002		215
Sales		5,095
Purchases	2,196	
Carriage inwards	38	
Inventory 31.12.2002	902	
Wages [adding value to goods]	35	
Wages: warehousing	380	
Wages and salaries: administrative	120	
Wages and salaries: sales	197	
Motor expenses	164	
Bad debts	31	

Loan note interest	40	
Preference dividend	20	
Ordinary dividend	500	
Bank overdraft interest	19	
General distribution expenses	81	
General administration expenses	73	
Director's remuneration	210	
Investments in associates	340	
Income from shares in associates		36
Discounts allowed and received	55	39
Building: at cost	1,200	
Plant and machinery: at cost	330	
Motor vehicle: at cost	480	
provisions for depreciation:		
Land and buildings		375
Plant and machinery		195
Motors vehicle		160
Goodwill	40	
Patients, licenses and trade marks	38	
Trade accounts receivable and payable	864	392
Bank overdraft [repayable any time]		21
Loan notes 10%		400
	8,353	8,353

a) Inventory at 31.12.2013: 1,103,000 at cost.

b) Motor expenses and depreciation on motors to be apportioned: distribution 75%; administrative 25%.

c) Depreciation on buildings and plant and machinery to be apportioned: distribution 50%; administrative 50%.

d) Depreciate on cost: motor vehicles 25%; plant and machinery 20%.

e) Accrued corporation tax on profits of the year 266,000. This is payable 1 October 2004.

f) During the year new vehicles were purchased at a cost of 60,000.

g) During June 2003 one of the buildings, which had original cost 130, 000, and which had a written-down value at the date of the sale of 80,000 was sold for 180,000. Depreciation on buildings to be charged against thee year's profits 60,000. The buildings are revalued by B and co. chartered surveyors, at 1,500,000 at 31.12.2013 [and this figure is to be included in the financial statements].

h) Directors' remuneration was follows:

Marketing	42,000
Chairman	37,000
Managing	61,000
Finance	50,000
	190,000

In addition each director drew 5,000 fees.

i) The loan notes are to be redeemed in five equal instalments, starting in the following year, 2004.

j) The investments are in listed companies with a market value at 31 December 2003 of 438,000.

k) Accrue auditors' remuneration, including expenses, 7000.

You are required to prepare an income statement and a balance sheet as at 31 December 2003 which should:

a) conform to the requirements of the companies Act

b) conform to the relevant accounting standards;

c) Give the notes necessary to the accounts.

QUESTION THREE

You are presented with the following summarized information for Norbreck plc and its subsidiary, Bispham Ltd:

Income statements for the year ending 30 September 2007

	Norbreck plc	Bispham Ltd
Revenue	1,700	450
Cost of sales	[920]	[75]
Gross profit	780	375
Administration expenses	[300]	[175]
Income from shares in group company	120	-
Profit before taxation	600	200
Taxation	[30]	[20]
Profit for the year	570	180

Balance sheets at 30th September 2007

	Norbreck plc	Bispham Ltd
Non-current tangible assets	1,280	440
Investments: shares in group company	400	_
	1,680	440
Current assets		
Inventory	300	250
Accounts receivable	280	150
Cash at bank and in hand	40	10
	620	410
Total assets	2,300	850

Current liabilities		
Trade accounts payable	[80]	[160]
Other payables, taxation and social security	[160]	[70]
-	[240]	[230]
Non-current liabilities		
Deferred taxation	[460]	[20]
Total liabilities	[700]	[250]
Net assets	1,600	600
Equity		
Called-up share capital [ordinary shares of 1 each]	900	400
Reserves [including retained profits]	700	200
	1,600	600

Additional information:

a) Norbreck plc acquired 80% of the shares in Bispham Ltd on 1 October 2004. Bispham's retained profits balance as at that date was 10,000.

b) During the year, Norbreck paid dividends of 360,000 and Bispham paid dividends of 150,000.

Required:

Prepare Bispham plc's consolidated income statement for the year ending 30 September 2007 and a consolidated balance sheet as at that date. (20 marks)

QUESTION FOUR

(a) The qualitative characteristics underlying good accounting information can be divided into primary and secondary characteristic. **Discuss** (12 marks)

(b) Discuss the arguments **for** support and **against** the accounting standards. (8 marks)

QUESTION FIVE

Total lady investment Ltd has three cash generating unit based in Mombasa road [M], Athriver [A] and Ruaraka [R] with carrying amount of Shs 400, Shs 500 and 600 respectively on 31 December 2OXO.

These carrying amounts do not include goodwill. Total lady investment Ltd is experiencing a lot of changes in both political and technological environment and conducts annually impairment tests of each of its cash generating unit.

a) The operations of M, A, R, are conducted at the headquarter which is situated in upper hill away from the city centre. The headquarter is composed headquarter building and an operation research centre with a carrying amount of Shs 1,500 and 3,000 respectively.

1. The expected remaining life of cash generating unit M is 5 years and that of A and R is 10 years. The headquarter is depreciated on a straight line method with a nil residual value.
2. The carrying of the research centre which cannot be allocated on a reasonable and consistent basis to the individual cash generating unit under review.
3. The recoverable amount of each cash generating unit is based on its value in use.
4. The discount rate is 20%
5. Ignore taxation.

Required

[a] Allocation of impairment loss to the cash-generating units

[b]Amount to be recognized income statement. (12 marks)

b) What is meant by the going concern principle of accounting, how does it affect the valuation of asset? (8 marks)