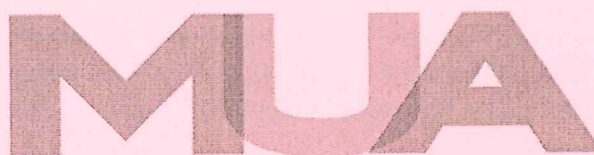


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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 122 : FINANCIAL ACCOUNTING II

DATE: 4TH APRIL 2019

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) Peter, Wilson and Joshua are partners sharing profit and losses in the ratio 3:1:1 after interest on capital at 10% and salaries to Wilson and Joshua of Kshs 300,000 each. The trial balance for the period ended 31st December 2007 is as follows.

	Dr. Kshs(000)	Cr. Kshs(000)
Capital accounts:		
Peter		3,000
		Wilson
		2,000
		Joshua
		1,500
Sales and purchases	6,000	10,000
Creditors and debtors	2,000	800
Returns	400	200
Discounts	200	300
Office expenses	1,000	
Current accounts:		500
Peter		
		Wilson
		400
		Joshua
		200
General expenses	1,200	
Bad debts	200	
Provision for bad debts		200
Rent and rates	200	
Salaries and wages	500	
Land and buildings	4,000	
Plant and machinery	3,000	
Motor vehicles	3,000	
Accumulated Depreciation:		
Building	Land and	1,000
	Plant and machinery	1,500
	Motor vehicles	500
	<u>21,900</u>	<u>21,900</u>

Additional information:

- a) Stock as at 31/12/2007 amount to Kshs 1,000,000
- b) Provision for bad and doubtful debts maintained at 10% of debtors
- c) General expenses amounting to Kshs 200,000 were in arrears while rent and rates Kshs 100,000 are in advance.
- d) Depreciation is charged as follows:
 - i. Land & buildings 10% on cost
 - ii. Plant & machinery 20% on reducing balance method.
 - iii. Motor vehicles 15% on cost

Required:

- a) Trading, profit and loss account (19 Marks)
- b) Explain three reasons for incomplete records (6 Marks)

QUESTION TWO

The Chief Accountant of Mpeketoni (K) Ltd has extracted the following trial balance as at 31 December 2013.

	Sh,'000'	Sh,'000'
Authorized and issued capital (shares of Sh. 20 each fully paid)		30,000
Share premium		350
10% Debentures		3,500
General reserve		2,000
Profit and loss account 31 December 2012		2,850
Motor vehicles at cost	3,500	
Provision for depreciation		265
Freehold property	44,500	
Trade debtors	1,375	
Trade creditors		460
Purchases and sales	95,650	127,450
Stock in hand 31 December 2012	3,478	
Furniture and Fittings	1540	
Provision for depreciation		138
Goodwill	500	
Rent receivable		385
Salaries and wages	2,285	
General expenses	358	
Vehicle running expenses	2,470	
Bad debts	124	
Telephone and postage	568	
Water and electricity	269	
Rates and insurance	289	
Cash at bank	10,492	

	167,398	167,398
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Additional Information;

- a) Credit sales amounting to Sh.165, 000 were made on 31 December 2013 but no entries were made in the books.
- b) Returns outwards amounting to Sh.128, 000 were dispatched on 31 December 2013 but no entries were made in the books.
- c) Closing stock was valued at Sh.4, 398,000.
- d) Accrued salaries and telephone bills amounted to Sh.134, 000 and Sh.55, 000 respectively.
- e) Rent for the month of December 2013 amounting to Sh.35, 000 had not been received from the tenant.
- f) Provision for depreciation on furniture and fittings and the motor vehicles are 10% and 20% on cost respectively.
- g) Provision for bad and doubtful debts of 5% on trade debtors should be made.
- h) Corporation tax should be provided at 35% of the net profit before tax.
- i) The directors propose a dividend of 15% on issued share capital and a transfer of Sh.2, 500,000 to the general reserve.
- j) The debenture interest has not yet been paid.

Required:

In your capacity as a senior accountant of Mpeketoni (K) Limited, prepare and submit to the chief accountant a balance sheet as at 31st December 2013.

(15 marks)**QUESTION THREE**

Home Marketing Limited sells a single product "Wonder Home" exclusively through personal marketing. The comparative income statements and balance sheet of the company for the year ended 31 December 2004 and 2005 are given below:

Home Marketing Ltd.**Income statement for the year ended 31 December:**

	2004 Sh.'000'	2005 Sh.'000'
Sales	500,000	350,000
Less: cost of sales	<u>(200,000)</u>	<u>(140,000)</u>
Gross profit on sales	300,000	210,000
Less: operating expenses	(260,000)	(243,000)
Loss on sale of marketable securities	-	<u>(1,000)</u>

Net income (loss)	40,000	(34,000)
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Balance sheet as at 31 December:

	2004 Sh.'000'	2005 Sh.'000'
Assets:	10,000	60,000
Cash and cash equivalents	20,000	5,000
Marketable securities	40,000	23,000
Accounts receivable (net of provision)	120,000	122,000
Inventory	300,000	285,000
Plant and equipment (net)	490,000	495,000
Shareholders' equity and liabilities:		
Accounts payable	50,000	73,000
Accrued expenses	17,000	14,000
Long-term loan	245,000	253,000
Share capital (Sh.10 par value)	100,000	110,000
Share premium	20,000	25,000
Retained earnings	<u>58,000</u>	<u>20,000</u>
	<u>490,000</u>	<u>495,000</u>

Additional information:

- In the year ended 31 December 2005, the company paid a total of sh.4 million as cash dividends.
- The company purchased equipment for Sh. 20 million, paying in Sh. 2 million in cash and carrying the balance of sh.18 million as long-term loan.
- Interest on the long-term loan amounting to sh.6 million was paid during the year ended 31 December 2005.
- Accounts receivable are stated net of provision of sh.8 million and sh.6 million as at 31 December 2005 and 2004 respectively.
- Marketable securities are shares in non-quoted companies.

Required:

Cash flow statement for the year ended 31 December 2005 (15 Marks)

QUESTION FOUR

You have been provided with the following summarized accounts of Golden Times Ltd. For the year ended 31 March 2017:

Balance sheet as at 31 March 2017

	Sh.	Sh.	Sh.
Fixed assets:			
Freehold property (Net book value)			480,000
Plant and machinery (Net book value)			800,000
Motor vehicles (Net book value)			200,000
Furniture and fittings (Net book value)			<u>200,000</u>
			1,680,000
Current Assets:			
Stocks		1,000,000	
Debtors		400,000	
Investments		<u>120,000</u>	
		1,500,000	
Current liabilities:			
Trade creditors	238,400		
Bank overdraft	878,400		
Corporation tax	176,000		
Dividends payable	<u>107,200</u>	(1,400,000)	<u>120,000</u>
			<u>1,800,000</u>
Financed by:			
Authorised share capital - 800,000			400,000
Sh.1 ordinary shares			200,000
Issued and fully paid: 400,000 Sh.1			800,000
Ordinary shares			
Capital reserve			<u>400,000</u>
Revenue reserve			<u>1,800,000</u>
Loan capital: 400,000 10% Sh.1			
Debentures			

Profit and loss account for the year ended 31 March 2017

	Sh.
Sales (credit)	<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000
	<u>40,000</u>
Less: debenture interest	400,000
Profit before tax	<u>176,000</u>
Corporation tax	224,000
	<u>107,200</u>
Less: ordinary dividend proposed	<u>116,800</u>
Retained profit transferred to revenue reserve	

The following additional information was available:

- i) The purchases for the year were Sh.2, 160,000 while the cost of sales was Sh.3, 000,000
- ii) The market price for Golden Times Ltd. Ordinary shares as at 31 March 2017 was Sh.5

- iii) The company estimates the current value of its freehold property at Sh.1,100,000.

Required:

- (a) Compute the following ratios for Golden Times Ltd.:
- | | | |
|-------|-----------------------|-----------|
| (i) | The profit margin | (2 Marks) |
| (ii) | Current ratio; | (2 Marks) |
| (iii) | Liquid ratio; | (2 Marks) |
| (iv) | Stock turnover ratio; | (2 Marks) |
| (v) | Dividend yield ratio; | (1 Mark) |
| (vi) | Price earnings ratio. | (2 Marks) |
- (b) Comment on Golden Times Ltd. Liquidity stating the reference points to which relevant ratios can be compared. (4 Marks)

QUESTION FIVE

A limited has an authorized share capital of 200,000 shares of Kshs1 each out of which only 150,000 shares have been issued, Although the firm requested the shareholders to pay 80cents per share, the shareholders were able to pay 50cents per share.

Required:

- | | |
|------------------------------|-----------|
| a) Authorized share capital | (3 Marks) |
| b) Issued share capital | (3 Marks) |
| c) Called up share capital | (3 Marks) |
| d) Uncalled up share capital | (3 Marks) |
| e) Paid up share capital | (3 Marks) |

QUESTION SIX

Kamau and Kimani are partners sharing profits and losses in the ratio 3:2 respectively. The partnership agreement provides for Kimani to receive a salary of Sh.4,000,000 per annum, and interest on capitals for both partners at 5% per annum. The partnership balance sheet as at 31 December 2008 was as follows:

	Sh. '000'	Sh. '000'		Sh. '000'	Sh. '000'
Capital accounts			Premises		
Kamau	16,000		Less depreciation		20,800
Kimani	<u>10,000</u>	26,000	Equipment at cost	8,000	
			Depreciation	<u>(4,800)</u>	<u>3,200</u>
					24,000
Current accounts					
Kamau	3,200				
Kimani	<u>(300)</u>	2,900	Stock	5,600	
			Debtors	2,200	
Creditors accruals		<u>3,300</u>	Cash	<u>400</u>	<u>8,200</u>
		<u>32,200</u>			<u>32,200</u>

On 1 April 2009 Kimata was admitted to the partnership. He had been a salaried employee, earning Sh.8, 000,000 per annum. The terms of his admission to the partnership were as follows:

- i) Kimata should introduce Sh. 12,000,000 in cash as capital into the business
- ii) Goodwill should be valued at Sh.14, 000,000 for the purpose of his admission. It was agreed that goodwill should not be included in the balance sheet of the new partnership
- iii) Kimata should receive a salary as a partner of Sh.6, 000,000 per annum. Kimani's salary should be raised to Sh.6, 000,000.
- iv) Interest on capital should be raised from 5% to 6% per annum and calculated on the capital accounts after the elimination of goodwill
- v) The new profit sharing ratio for Kamau, Kimani and Kimata should be 4:2:1 respectively.

In preparing the draft financial statements for the year ended 31 December 2009, the partnership accountant, Otieno, calculated that the partnerships profit for the year was Sh.55, 155,000, and that the working capital of the business as at 31 December 2009 was:

	Sh. '000'
Stock	12,555
Debtors	3,500
Cash	8,800
Creditors and accruals	3,480

Profit is assumed to accrue evenly during the year. Partners cash drawings for the year were Kamau Sh.23,705,000, Kimani Sh.19,525,000 and Kimata Sh.8,250,000.

Required:

- a) The profit and loss appropriation account for the year ended 31 December 2009. **(7 Marks)**
- b) Balance Sheet as at 31 December 2009 **(8 Marks)**

