



MURANG'A UNIVERSITY COLLEGE

(A Constituent University of Jomo Kenyatta University of Agriculture and Technology)

DIPLOMA IN CO-OPERATIVE MANAGEMENT

FINANCIAL ACCOUNTING

END OF SEMESTER TWO

CLASS: BS/CM/12D

CODE: BS1209

DATE: 11TH DECEMBER 2013

TIME: 2 HOUR

INSTRUCTIONS TO THE STUDENTS

- (i) This paper consist of **FIVE** questions
- (ii) Answer Question **ONE** and any other **TWO** questions

QUESTION ONE

Meza Ltd has an authorized share capital of 20million divided into 1.5 million ordinary shares of shs.10 each and 250,000 8% preference shares of shs.20 each. A balance sheet extra as at 30th June 2012 was as follows;

	'000'		'000'
Fixed assets	7040	creditors	550
Stock	2300	500000 ord. shares of shs.10 each	5,000
Debtors	980	250000,8% pref. shares shs.20 each	5,000
Bank	530	share premium	300

On 1st July 2012 the company offered 0.5 million ordinary shares for sale to the public at shs. 15 each payable as follows.

On application shs. 7 (including premium)

On allotment shs. 5

1st call & 2nd call shs. 3

Applications were received on 15th July 2012 and allotment made on 31st July 2012. The allotment money was received on 15th August 2012. The first and final call was made on 15th September 2012 and the money was received on 30th September 2012. The company received applications for 650000 shares. Applications for 25000 shares were rejected and the applications money was refunded. The shares were then allocated to the remaining applicants on a

prorate basis and the excess of the application money been carried forward in part of satisfaction of the amount due on allotment.

An allottee of 3000 shares failed to pay both the allotment and the 1st and final call money and the shares were forfeited on 13th October 2012. The forfeited shares were then re-issued at shs.12 each on 21st October 2012.

Required: (a) Ledger accounts to record the transactions. (18MKS)

(b) Journal entries to record the above entries. (8mks)

(b) Balance sheet as at 21st October 2012. (4MKS)

QUESTION TWO

(a) Explain the following terms as used in company accounts :

(i) Bonus share

(ii) Right issue

(4mks)

(b) Explain the circumstances under which goodwill of a partnership may be revalued.

How is the goodwill treated in the books of accounts?

(4mks)

(c) (A, B, and C) are trading as partners sharing profits and losses in the ratio of 2:2:1. They have the following assets and liabilities at the book values and they wish to restate these values at market values and agreed values.

Assets/Liabilities	Book value £	Market price/Agreed value £	gain/loss
Buildings	2,000,000	2,500,000	500,000
Fixtures, Fittings & furniture	900,000	800,000	(100,000)
Motor vehicle	1,200,000	1,150,000	(50,000)
Stock	700,000	650,000	(50,000)
Debtor	450,000	400,000	(50,000)
Creditor	800,000	700,000	100,000

(a)

Required:

Prepare Revaluation account and the partner's capital account given the partner's balances as

A 3,000,000

B 2,500,000

C 1,500,000

(17mks)

QUESTION THREE

Emileo, Stanery and Mwai have been trading in partnership sharing profits/losses in the ration of 5:3:2 respectively. On 1 April 2012 they admitted their manager, Lucy as a partner and the profit sharing ratio was changed to 4:3:2:1 for Emileo, Stanery, Mwai and Lucy respectively.

The partners valued the goodwill at Sh.510,000. Lucy paid Sh.200,000 as capital and his share of goodwill, which should be based on capital contributions.

The partners do not wish to retain the goodwill account after admission of Lucy. The admission of Lucy has not been fully recorded other than the cash receipt of Sh.376,500.

The following is the trial balance of the partnership as at 31 March 2013:

	Sh.	Sh.
Capital accounts – Emileo		700,000
- Stanery		600,000
- Mwai		400,000
Current accounts- Emileo		350,000
-Stanery		325,000
- Mwai		195,000
Drawings – Emileo	250,000	
- Stanery	260,000	
- Mwai	250,000	
- Lucy	175,000	
Land and buildings at cost	2,000,000	
Furniture and fittings at cost	500,000	
Provision for depreciation of furniture and fittings		150,000
Motor vehicles	860,000	
Provision for depreciation on motor vehicles		480,000
Trade debtors and creditors	365,000	823,500
Lucy account		376,500
Purchases and sales	3,380,000	5,975,000
Stock 1 April 2012	465,000	
Salaries and wages	295,000	
Rates	137,000	
Telephone and postage	116,000	
Vehicles running expenses	396,000	
Insurance and subscriptions	162,000	
General expenses	72,000	
Bank charges and interest	124,000	
Bad debts	48,000	
Returns inwards and outwards	61,000	75,000
Cash in hand	24,000	
Cash in bank	490,000	
	<u>10,450,000</u>	<u>10,450,000</u>

Notes:

- 1) Depreciation on furniture and fittings and motor vehicles is at 10% and 20% on reducing balance

respectively.

- 2) The closing stocks were valued at Sh.560,000.
- 3) Accrued salaries and wages and telephone bills amounted to Sh.24,000 and Sh.14,000 respectively.
- 4) Prepaid subscriptions and rates amounted to Sh.5,000 and Sh.25,000 respectively.
- 5) The partners decided that Lucy should be given a monthly salary of Sh.20,000 from 1st September 2012 to 31 March 2013.
- 6) Lucy took goods for own use at cost amounting to Sh.185,000. No entry has been made in the books.
- 7) The old partners shared the cash paid by Lucy for part of his goodwill.

Required:

- a) Trading, profit and loss and appropriation account for the year ended 31 March 2013. (13mks)
- b) Partners capital accounts. (4mks)
- c) Partners current accounts. (4mks)
- d) Balance sheet as at 31 March 2013 (4mks)

QUESTION FOUR

- (a) Explain three advantages of a cash flow statement. (6mks)
- (b) The following income statement and a balance sheets were extracted from the books of Mapato Ltd.

Income statement for the year ended 31st may 2013.

	Sh.'million'
Sales	1,284
Cost of sales	<u>(708)</u>
Gross profit	576
Operating expences	<u>(488)</u>
Operating profit	88
Interest payable	<u>(23)</u>
Net profit	65
Corporation tax	(20)
Proposed divided	<u>(17)</u>
Retained profit	28

Balance sheets as at 31st May

	2012	2013
	Sh.'million'	sh.'million'
Non-currents assets		
Property,plant and equipment at cost	780	812
Cumulative depreciation	<u>(485)</u>	<u>(546)</u>
	295	266

Current assets:

Inventory	118	154
Accounts receivable	96	167
Cash in hand	<u>12</u>	<u>-</u>
	<u>226</u>	<u>321</u>
Total assets	<u>521</u>	<u>587</u>
Capital and liabilities:		
Capital and reserves:		
Ordinary shares of sh.100 each	40	40
Retained earnings	<u>71</u>	<u>99</u>
Shareholders funds	<u>111</u>	<u>139</u>
Long-term liability		
12% debentures	200	180
Current liabilities:		
Accounts payable	179	210
Bank overdraft	-	23
Proposed dividend	17	17
Corporation tax	<u>14</u>	<u>18</u>
	<u>210</u>	<u>268</u>
Total capital and liabilities	<u>521</u>	<u>587</u>

REQUIRED:

Cashflow statement for the year ended 31st May 2013. (19mks)

QUESTION FIVE

- (a) Explain FOUR features of preference shares. (8mks)
 (b) The following are summarized financial statements of Undugu co-operatives societies Ltd.

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

		Ksh.
Sales		12,000,000
Cost of sales		<u>(4,100,000)</u>
Gross profit		7,900,000
Expenses		<u>(3,480,000)</u>
		4,420,000
Corporation tax		<u>(1,326,000)</u>
Net profit		3,094,000
Less:		
Preference dividend	240,000	
Ordinary shares	<u>1,800,000</u>	<u>(2,040,000)</u>
Retained profit for the year		<u>1,054,000</u>

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2012

Net assets	Ksh. <u>15,754,000</u>
Financed by:	
Ordinary shares of Ksh.20 each	10,000,000
6% preference shares of Ksh 20 each.	4,000,000
Reserves	<u>1,754,000</u>
	<u>15,754,000</u>

The market price of ordinary shares is Ksh.40
Calculate:

- i) Earnings yield;
- ii) Dividend yield;
- iii) Return on equity;
- iv) Gearing ratio;
- v) Preference dividend cover;
- vi) Ordinary dividend cover.

(12mks)

(c) Highlight Five factors that should be considered when designing the dividend policy of a firm.

(5mks)

MR.NDEGWA

SUBJECT TEACHER