



MURANG'A UNIVERSITY COLLEGE
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

SCHOOL OF COMMERCE AND ECONOMICS

FIRST YEAR/ SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

UNIT CODE: HBC 2107: INTRODUCTION TO ACCOUNTING II

TIME: 3 HOURS

DATE: AUGUST

Instructions:-

- Answer question ONE and any other TWO questions.

Q1a. Differentiate between the following;

- | | | |
|------|---|-----------|
| i. | 'Capital reserve' and ' revenue reserve' | (2 marks) |
| ii. | ' Authorized share capital and 'Issued share capital' | (2 marks) |
| iii. | 'Cash discount' and 'trade discount' | (2 marks) |
| iv. | 'Prime costs' and ` indirect costs' | (2 marks) |
| v. | `Cost Allocation' and `Cost apportionment' | (2 marks) |

b. John and Agnes are partners sharing profits and losses in the ratio 2:1. The trial balance for the partnership as at 31 July, 2012 was as follows;

Capital Accounts:	John		5,100,000
	Agnes		2,550,000
Drawings:	John	1,530,000	
	Agnes	680,000	
Purchases		16,660,000	
Sales			25,364,000
Returns inwards/outwards		442,000	578,000
Business premises at cost		2,380,000	
Office furniture at cost		765,000	

Trade receivables and payables	4,981,000	4,233,000
Inventory (August 1, 2011)	5,807,200	
Salaries	1,581,000	
Rates and insurance	715,700	
General expenses	210,800	
Carriage inwards	200,100	
Advertising	105,000	
Bank and cash	<u>1,723,800</u>	
	<u>37,825,000</u>	<u>37,825,500</u>

Additional information;

1. Interest on capital account balances is allowed at 5% per annum.
2. Interest on drawings is charged at 10% per annum.
3. Agnes is entitled to a monthly salary of sh 60,000.
4. Outstanding advertising expenses as at 31 July 2012 is sh 10,500.
5. Rates paid in advance as at 31 July 2012 amounted to sh 49,300.
6. Inventory as at 31 July 2012 was valued at sh 5,304,000.
7. Depreciation on office furniture is charged at 10% per annum on cost.

Required;

- a. Income statements for the year ended 31 July 2012. (10 marks)
- b. Partners capital account. (5 marks)
- c. Statements of financial position as at 31 July 2012. (5 marks)

(Total 30 marks)

Q2. Jitahidi Ltd was incorporated in the year 2010 and specializes in the manufacturing of electric cables branded 'Nyaya'. The following trial balance was extracted from the books of the company as at 30 April 2012.

Inventory (May 1 2011)	sh`000'	
Raw materials	6,000	
Work in progress	7,000	
Finished goods	8,000	
Purchases of raw materials	82,000	
Sales		184,700
Trade receivables and payables	9,000	6,000
Bank Balance	5,200	
Carriage inwards	3,000	
Direct labour	16,000	
Provision of unrealized profit		1,600
Electricity and water	9,600	
Rates and insurance	5,200	
Distribution cost	2,000	
Administration expenses	1,880	
Land (cost)	45,000	
Building (cost)	125,000	
Plant and machinery (cost)	20,000	
Motor vehicles (cost)	16,000	

Equipment (cost)	10,000	
Accumulated depreciation as at (May 1 2011)		
- Buildings	5,000	
- Plant and Machinery	8,000	
- Motor Vehicles	4,000	
- Equipment	6,000	
15% debentures		8,000
Interest on debentures paid	1,200	
Ordinary shares of sh20 each		100,000
Share premium		10,000
Retained earnings		<u>38,780</u>
	<u>372,080</u>	<u>372,080</u>

Additional information:

1. Inventory as at 30 April 2012 were valued as follows;

	Sh '000'
Raw materials	7,200
Work –in- progress	2,000
Finished goods	9,500

2. It is the policy of Jitahidi Ltd to transfer the finished goods to trading at cost plus a Mark-up of 25%.
3. Accrued electricity as at 30 April 2012 amounted to sh 400,000 while prepaid insurance was sh 200,000.
4. Depreciation is charged on a straight line bases as follows;
- | | |
|---------------------|----------------|
| Asset | Rate per annum |
| Buildings | 2% |
| Plant and machinery | 20% |
| Motor Vehicles | 25% |
| Equipment | 20% |

5. Costs are allocated as follows;

	Factory %	Distribution cost %	Administrative cost %
Depreciation of Buildings	80	10	10
Plant and machinery	100	-	-
Equipment	-	50	50
Motor vehicles	-	50	50
Rates and Insurance	60	20	20
Electricity and water	60	20	20

6. A provision for corporate tax amounting to sh 14,350,000 is to be made.

Required;

- i. Manufacturing Account for the year ended April 30,2012. (8 marks)

- ii. Trading, profit and loss Account for the year ended 30th April 2012. (5 marks)
 iii. Balance sheet as at the end of 30 April 2012. (7 marks)
(Total 20 marks)

Q3. The following trial balance was extracted from the books of Usaidizi Ltd for the year ended 31 December 2011.

	Sh `000`	sh `000`
Ordinary shares (sh 150 each at par)		750,000
6% preference shares (sh 200 each per value)		1,000,000
5% Debentures		100,000
Investments	80,000	
Plant and machinery (at cost)	1,800,000	
Motor vehicles (at cost)	200,000	
Inventory (1 January 2011)	60,000	
Purchases	800,000	
Carriage inwards	12,600	
Allowance for doubtful debts		10,000
Sales		1,560,000
Trade receivables	90,200	
Income from investments		4,000
Trade payables		60,700
Furniture and fixtures (at cost)	80,000	
Salaries and wages	117,840	
Bad debts written off	300	
Directors emoluments	80,000	
Accumulated depreciation (1.1. 2011)		
Plant and machinery		150,000
Motor vehicles		60,000
Land and buildings	220,000	
Miscellaneous expenses	18,000	
Cash in hand	6,160	
Bank balance	152,200	
Insurance	8,400	
Audit fees	9,000	
Office equipment (at cost)	50,000	
Revenue reserves (1.1.2011)		30,000
Share premium		40,000
Return outwards		<u>20,000</u>
	<u>3,784,700</u>	<u>3,784,700</u>

Additional information;

1. Closing inventory was valued at sh 44,000,000
2. As at 31 December 2011, pre-paid insurance amount to sh 1,400,000 and sh 2,160,000 Of salaries were outstanding.
3. Accrued audit expenses as at 31 December 2011 amounted to sh 1,000,000.
4. Interest on debentures has not been provided for.
5. Depreciation is to be provided for as follows;

Asset	Rate per annum
Plant and machinery	10% on cost
Motor vehicles	15% on reducing balance
Office equipment	10% on cost
Furniture and fixtures	10% on cost.

6. The directors have recommended the following;
 - Sh 100,000,000 to be transferred to general reserves.
 - Dividends on preference shares to be paid.
 - Payment of a 6% dividend on ordinary shares.
7. Allowance for doubtful debts is to be maintained at sh 10,000,000.
8. As at 31 December 2011, emoluments due to directors was sh 4,000,000.
9. Ignore the depreciation on buildings

Required;

- a. A Trading, profit and loss and Appropriation Account for the year ended 31 December 2011. (10 marks)
 - b. Balance sheet as at 31 December 2011. (10 marks)
- (Total 20 marks)**

Q4. The following balances of assets and liability were extracted from the books of sparrow sports club as at March 31.

	2011	2012
	Sh '000'	sh`000'
Equipment	18,000	16,000
Furniture & Fittings	1,200	1,000
Subscription in arrears	430	100
Subcription in advance	600	500
Inventory of stationery	15	5
Bar inventory	3,500	?
Cash at Bank	1,000	?
Petty cash	25	15
Bar payables	700	1000
Accrued electricity	30	40

The summary of receipts and payment for the year ended 31 march was as follows;

	Receipts	Payments
	Sh`000'	sh`000'
Subscription	4,400	
Bar takings	20,000	
Entry fees	390	
Bar payables		13,700
Petty Cash		180
New equipment		2,000
Cash refunds to members		200

Electricity	400
Barman's wages	1,600
Bar glasses	100
Repairs and maintenance	300
Rates and insurance	160
Honoraria to treasurer	290

Additional information;

1. The club maintains a uniform gross profit margin of 25% on bar sales.
2. The bar glasses are considered as revenue expenditure.
3. The bar man is entitled to an annual bonus of 10% of bar net profit after charging the bonus.
4. The petty cash was used for purchase of stationery only.
5. Subscriptions received during the year included sh 400,000 being arrears of the previous year. It is the policy of the club to write-off arrears of more than one year.

Required;

- a. Bar income statement for the year ended 31 March 2012. (4 marks)
 - b. Subscription Account. (4 marks)
 - c. Income and expenditure account for the year ended 31 March 2012. (6 marks)
 - d. Statement of financial position as at 31 March 2012. (6 marks)
- (Total 20 marks)

Q5a. Explain **THREE** reasons why the amount of cash flow of a business entity might differ from the profit generated by the business entities during the same period. (3 marks)

b. The financial statements of Wendani Ltd for the year ended 31 January 2011 and 31 January 2012 are given below;

	2011 Sh`000'	2012 sh`000'
Assets;		
Non- current assets (net book value)	<u>11,000</u>	<u>14,000</u>
Currents assets;		
Inventory	2,000	3,000
Trade receivables	2,500	2,800
Bank balance	<u>-</u>	<u>500</u>
	<u>4,500</u>	<u>6,300</u>
Total assets	15,500	20,300
Equity and liability;		
Capital and reserves		
1,000,000 ordinary shares sh 10 each	10,000	10,000
Revenue reserves	<u>3,000</u>	<u>4,100</u>
	13,000	14,100
Non – current liabilities;		
8% debentures	-	5,000
Current liabilities:		
Trade payables	1,500	1,200

Bank overdraft	<u>1,000</u>	<u>-</u>
	<u>2,500</u>	<u>1,200</u>
Total capital and liabilities	15,500	20,300

Income statement for the year ended 31 January

	2011 Sh`000'	2012 sh`000'
Sales	20,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(21,000)</u>
Gross profit	5,000	7,000
Administration expenses	(3,800)	(4,800)
Finance costs	<u>-</u>	<u>(400)</u>
	1,200	2,000

Inventory as at 1 February 2010 was sh 5,000,000.

Required;

For each year, compare the following ratios;

- i. Gross profit margin
- ii. Inventory turnover
- iii. Return on equity
- iv. Return on assets
- v. Acid test ratio
- vi. Current ratio
- vii. Financial leverage (14 marks)
- c. Comment on the liquidity position of the company. (3 marks)

(Total 20 marks)