



MURANGA UNIVERSITY COLLEGE
(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBC 2107

COURSE TITLE: INTRODUCTION TO ACCOUNTING 2

DATE: 28TH JUNE 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 6 Printed Pages. Please Turn Over.



QUESTION ONE:

Rotich and Sinei have been in partnership for several years, sharing profits and losses in the ratio 2:1. Interest on fixed capitals was allowed at the rate of 10% per annum, but no interest was charged or allowed on current accounts.

The following was the partnership trial balance as at 30 April 2011:

	Sh.	Sh.
Fixed capital accounts		
Rotich		750,000
Sinei		500,000
Current accounts		
Rotich		400,000
Sinei		300,000
Leasehold premises (purchased 1 May 2010)	2,250,000	
Purchases	4,100,000	
Motor vehicle (cost)	1,600,000	
Balance at bank	820,000	
Salaries (including partners' drawings)	1,300,000	
Stocks: 30 April 2010	1,200,000	
Furniture and fittings (cost)	300,000	
Debtors	225,000	
Accountancy and audit fees	105,000	
Wages	550,000	
Rent, rates and electricity	310,000	
General expenses (Sh.352,400 for the six months To 31 October 2010)	660,000	
Cash introduced – Tonui	1,250,000	
	Sh.	Sh.
Sales (Sh.3,500,000 to 31 October 2010)		8,750,000
Accumulated depreciation: 1 May 2010		
Motor vehicle		300,000
Furniture and fittings		100,000
Creditors		<u>1,970,000</u>
	<u>13,420,000</u>	<u>13,420,000</u>

Additional information:

1. On 1 November 2010, Tonui was admitted as a partner and from that date, profits and losses were to be dated in the ratio 2:2:1. For the purpose of this admission, the value of goodwill was agreed at Sh.3,000,000. No account for goodwill was to be maintained in the books, adjusting entries for transactions between the partners being made in their current accounts. On that date, Tonui introduced Sh.1,250,000 into the firm of which Sh.375,000 comprised his fixed capital and the balance was credited to his current account.
2. Interest on fixed capitals was still to be allowed at the rate of 10% per annum after Tonui's admission. In addition, after Tonui's admission, no interest was to be charged or allowed on current accounts.
3. Any apportionment of gross profit was to be made on the basis of sales. Expenses, unless otherwise indicated, were to be apportioned on a time basis.
4. A charge was to be made for depreciation on motor vehicle and furniture and fittings at 20% and 10% per annum respectively, calculated on cost.
5. On 30 April 2011, the stock was valued at Sh.1,275,000.
6. Salaries included the following partners' drawings:
Rotich Sh.150,000, Sinei Sh.120,000 and Tonui Sh.62,500.
7. A difference in the books of Sh.48,000 had been written off at 30 April 2011 to general expense, which was later found to be due to the following clerical errors:
Sales returns of Sh.32,000 had been debited to sales returns but had not been posted to the account of the customer concerned :
The purchases journal had been undercast by S.80,000.
8. Doubtful debts (for which full provision was required) amounted to Sh.30,000 and Sh.40,000 as at 31 October 2010 and 30 April 2011 respectively.
9. On 30 April 2011, rates and rent paid in advance amounted to Sh.50,000 and a provision of Sh.15,000 for electricity consumed was required.

Required:

- a) Trading and profit and loss account for the year ended 30 April 2011. (10 marks)
- b) Partners' current accounts for the year ended 30 April 2011. (6 marks)
- c) Balance sheet as at 30 April 2011. (8 marks)

An incomplete record situation is whereby, the accounting system falls short of the double entry. Provide an explanation, supported by suitable illustration(s) why some businesses have incomplete records. (6 marks)

QUESTION TWO:

Bibi Maridadi owns and manages a small manufacturing business. The following balances have been extracted from her books of account at 31 January 2014:

	Dr	Cr
	Sh	Sh
Capital at 1 February 2013		171,120
Accounts payable		86,000
Bank and cash balance	5,400	
Accounts receivable	92,000	

Drawings	60,000	
Administration expenses	150,360	
Advertising expenses	12,000	
Factory direct wages	60,000	
Factory indirect wages	24,000	
Factory power	36,000	
Furniture and fittings (all offices)	18,400	
Heat and light	16,000	
Plant and equipment	276,800	
Motor vehicle (used by salesmen)	144,000	
Plant hire	4,000	
Provision for bad debts		3,200
Provision for depreciation 1 February 2013:		
– Furniture and fittings		9,200
– Plant and equipment		138,400
– Motor vehicle		24,000
Raw material purchases	228,000	
Rent rates	20,000	
Sales		829,440
Selling and distribution expenses	66,400	
Inventories at cost, 1 February 2013:		
– Raw materials	8,000	
– Work in progress	16,000	
– Finished goods	<u>24,000</u>	
	<u>1,261,360</u>	<u>1,261,360</u>

The following additional information is provided:

(i) Accruals at 31 January 2014 were:

Factory power	-	Sh.1,600
Rent and rates	-	Sh. 4,000

There was also prepayment of Sh. 800 for salesmen's motor vehicle insurance.

(ii) Inventories at 31 January 2014, were valued at cost as follows:

Raw materials	-	Sh. 15,200
Work in progress	-	Sh. 30,400
Finished goods	-	Sh. 45,600

(iii) Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.

(iv) Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.

(v) The provision for bad debts is to be made equal to 5% of accounts receivable at 31 January 2014.

Required:

- a) Using the vertical method, prepare Bibi Maridadi’s manufacturing, trading and profit and loss account for the year ended 31 January 2014 (12 marks)
- b) A balance sheet as at that date. (8 marks)

QUESTION THREE :

The following is the receipts and payments account of the Youth Club for the year ended 31 December 2011:

	Sh.		Sh.
Balance at bank			
31 December 2010	102	Bar purchases	4,434
Entrance fees	42	Wages	416
Subscriptions: 2010	25	Rent	186
2011	305	Heating and lighting	128
2012	35	Postage and stationery	33
Bar Sales	5,227	Insurance	18
Sale of investments	750	General expenses	46
		Payments on account of new furniture	450
		Balance at bank, 31 December 2011	<u>775</u>
	<u>6,486</u>		<u>6,486</u>

The following information is also supplied:

	31 Dec. 2010	31 Dec. 2011
Bar stock, at cost	272	315
Creditors for bar purchases	306	358
Rent due	18	36
Heating and lighting expenses due	16	19
Subscriptions due	25	40
Insurance paid in advance	5	7

On 31 December 2010, the club held investments which cost Sh.500. During the year ended 31 December 2011, these were sold for Sh.750.

Furniture was valued at Sh.300 on 31 December 2010. On June 2011, the club purchased additional furniture at a cost of Sh.520. Depreciation of all furniture is to be provided for at the rate of 10% per annum.

Required:

- i. Prepare an income and expenditure account for the year ended 31 December 2011.(10 marks)
- ii. Prepare a balance sheet at that date. (10 marks)

QUESTION FOUR:

The following is the trial balance of Transit Ltd at 31 March 2012.

	£	£
Issued share capital (ordinary shares of £1 each)		42,000
Leasehold properties, at cost	75,000	
Motor vans, at cost (used for distribution)	2,500	
Provision for depreciation on motor vans to 31 March 2011	7,650	1,000
Administration expenses	10,000	
Distribution expenses	12,000	
Stock, 31 March 2011	138,750	
Purchases		206,500
Sales	25,000	
Directors' remuneration (administrative)		3,600
Rents receivable	6,750	
Investments at cost		340
Investment income		15,000
7% Debentures	1,050	
Debenture interest	162	
Bank interest		730
Bank overdraft	31,000	24,100
Debtors and creditors	1,260	
Interim dividend paid		<u>17,852</u>
Profit and loss account, 31 March 2011	<u>311,122</u>	<u>311,122</u>

You ascertain the following:

All the motor vans were purchased on 1 April 2009. Depreciation has been, and is to be, provided at the rate of 20% per annum on cost from the date of purchase to the date of sale. On 31 March 2012 one van, which had cost £900, was sold for £550, as part settlement of the price of £800 of a new van, but no entries with regard to these transactions were made in the books.

The estimated corporation tax liability for the year to 31 March 2012 is £12,700.

It is proposed to pay a final dividend of 10% for the year to 31 March 2012.

Stock at the lower of cost or net realizable value on 31 March 2012 is £16,700.

Required:

- a) Income statement for the year ended 31 March 2012 (10 marks)
- b) A balance sheet at that date. (10 marks)