



# **MURANGA UNIVERSITY COLLEGE**

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

**MAIN CAMPUS & TOWN CAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER EXAMINATIONS  
FOR THE DEGREE OF BACHELOR OF COMMERCE**

**&  
SECOND YEAR FIRST SEMESTER; SECOND YEAR SECOND  
SEMESTER EXAMINATIONS  
FOR THE DEGREE OF BACHELOR OF PURCHASING AND  
SUPPLIES MANAGEMENT**

**COURSE CODE: HBC 2107: & HPS 2202:**

**COURSE TITLE: INTRODUCTION TO ACCOUNTING 2**

**&  
FINANCIAL ACCOUNTING 2**

**DATE: 23<sup>RD</sup> APRIL, 2015**

**TIME: 2.00-4.00PM**

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## **INSTRUCTIONS TO CANDIDATES**

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

MRUC observes ZERO tolerance to examination irregularities

**QUESTION ONE**

Esther owns and manages a small manufacturing and Merchandising business. The following balances have been extracted from her books of accounts:

**Trial Balance as on 31 December 2014**

|  | <b>Dr</b>        | <b>Cr</b>        |
|--|------------------|------------------|
| Stock of raw materials 1.1.2014                      | 21,000           |                  |
| Stock of finished goods 1.1.2014                     | 38,900           |                  |
| Work in progress 1.1.2014                            | 13,500           |                  |
| Wages(direct Ksh180,000: factory indirectKsh145,000) | 325,000          |                  |
| Royalties  | 7,000            |                  |
| Carriage inwards (on raw materials)                  | 3,500            |                  |
| Purchases of raw materials                           | 370,000          |                  |
| Productive machinery (cost Ksh280,000)               | 230,000          |                  |
| Accounting machinery (cost Ksh20,000)                | 12,000           |                  |
| General factory expenses                             | 31,000           |                  |
| Lighting   | 7,500            |                  |
| Factory power  | 13,700           |                  |
| Administrative salaries                              | 44,000           |                  |
| Sales representatives' salaries                      | 30,000           |                  |
| Commission on sales                                  | 11,500           |                  |
| Rent   | 12,000           |                  |
| Insurance  | 4,200            |                  |
| General administration expenses                      | 13,400           |                  |
| Bank charges   | 2,300            |                  |
| Discounts allowed                                    | 4,800            |                  |
| Carriage outwards                                    | 5,900            |                  |
| Sales  |                  | 1000,000         |
| Debtors and creditors                                | 142,300          | 125,000          |
| Bank   | 56,800           |                  |
| Cash   | 1,500            |                  |
| Drawings   | 20,000           |                  |
| Capital as at 1.1.2014                               |                  | <u>29,680</u>    |
|  | <u>1,421,800</u> | <u>1,421,800</u> |

Notes at 31.12.2014

1. Stock of raw materials Ksh24,000, stock of finished goods Ksh40,000, work in progress Ksh15,000.
2. Lighting, and rent and insurance are to be apportioned: factory  $\frac{5}{6}$ ths, administration  $\frac{1}{6}$ th.
3. Depreciation on productive and accounting machinery at 10 per cent per annum on cost.

**Required:**

- a) Explain and give examples of Esther's Prime Costs . ( 3 marks)
- b) Using the Vertical Format:
  - (i) Prepare a manufacturing and Income Statement for year ended 31 December 2014. (12 marks)
  - (ii) A balance sheet as at 31<sup>st</sup> December, 2014. (7 marks)

- b) Giving suitable examples/ Illustrations, explain the following terms as used in Company accounts:

Called up Share capital  
 Shares issued at a Premium  
 Unsecured Debentures  
 Fictitious Assets (8 marks)

### QUESTION TWO:

Sharon and Jimmy are in a partnership sharing profits and losses equally. The following is their trial balance as at 30 June 2013.

|                                      | Dr.<br>Sh.       | Cr.<br>Sh.       |
|--------------------------------------|------------------|------------------|
| Buildings (cost Sh.750,000)          | 500,000          |                  |
| Fixtures at cost                     | 110,000          |                  |
| Provision for depreciation: Fixtures |                  | 33,000           |
| Debtors                              | 162,430          |                  |
| Creditors                            |                  | 111,500          |
| Cash at bank                         | 6,770            |                  |
| Stock at 30 June 2012                | 419,790          |                  |
| Sales                                |                  | 1,236,500        |
| Purchases                            | 854,160          |                  |
| Carriage outwards                    | 12,880           |                  |
| Discount allowed                     | 1,150            |                  |
| Loan interest: Valentine             | 40,000           |                  |
| Office expenses                      | 24,160           |                  |
| Salaries and wages                   | 189,170          |                  |
| Bad debts                            | 5,030            |                  |
| Provision for bad debts              |                  | 4,000            |
| Loan from Valentine                  |                  | 400,000          |
| Capitals: Sharon                     |                  | 350,000          |
| Jimmy                                |                  | 290,000          |
| Current accounts: Sharon             |                  | 13,060           |
| Jimmy                                |                  | 2,890            |
| Drawings: Sharon                     | 64,000           |                  |
| Jimmy                                | <u>56,500</u>    |                  |
|                                      | <u>2,446,040</u> | <u>2,446,040</u> |

The following information has been provided:

- Stock, 30 June 2013, Sh.563,400
- Expenses to be accrued: Office Expenses Sh.960; Wages Sh.2,000
- Depreciate fixtures 10 per cent on reducing balance basis, buildings Sh.10,000
- Reduce provision for bad debts to Sh.3, 200.
- Partnership salary: Sh.8,000 to Sharon. Not yet entered
- Interest on drawings: Sharon Sh.1, 800; Jimmy Sh.1,200.

g) Interest on capital account balances at 10 per cent.

**Required:**

- a) What is a partnership deed? Give four examples of its content (5 marks)
- b) Income statement and appropriation account for the year ended 30 June 2013 (9 marks)
- c) Balance sheet as at 30<sup>th</sup> June, 2013 (6 marks)

**QUESTION THREE:**

Olweny does not keep proper books of accounts. You ascertain that his bank payments and receipts during the year to 31 December 2014 were as follows:

|                     | Sh.          |              | Sh.          |
|---------------------|--------------|--------------|--------------|
| Receipts            |              | Payments     |              |
| Balance 1 Jan 2014  | 572          | Purchases    | 10,007       |
| Cheques for sales   | 13,179       | Expenses     | 2,950        |
| Cash banked         | 14,005       | Drawings     | 11,250       |
| Balance 31 Dec 2014 | <u>3,751</u> | Delivery van | <u>7,300</u> |
|                     | 31,507       |              | 31,507       |

From the cash notebook you ascertain the following:

|                                |         |
|--------------------------------|---------|
|                                | Sh.     |
| Cash in hand 1 January 2014    | 62      |
| Cash takings                   | 16,300  |
| Purchases paid in cash         | 1,850   |
| Expenses paid in cash          | 375     |
| Cash in hand 31 December 2014  | 65      |
| Drawings by proprietor in cash | Unknown |

You discover that assets and liabilities were as follows:

|                 | 1 Jan 2014 | 31 Dec 2014 |
|-----------------|------------|-------------|
|                 | Sh.        | Sh.         |
| Debtors         | 1,850      | 2,070       |
| Trade creditors | 1,250      | 1,420       |
| Stock on hand   | 2,650      | 2,990       |

Depreciation on the van is to be provided at the rate of 20% per annum.

**Required:**

From the above pieces of information, you are required to prepare:

- Income statement as at 31<sup>st</sup> December, 2014 (10 marks)
- Balance sheet as at 31<sup>st</sup> December, 2014 (10 marks)

**QUESTION FOUR:**

The following is the receipts and payments account of the Murang'a Acquaintances Club for the year ended 31 December 2011:

|                     | Sh.           |   | Sh.           |
|---------------------|---------------|---|---------------|
| Balance at bank     |               |   |               |
| 31 December 2010    | 10200         | Bar purchases                           | 443400        |
| Entrance fees       | 4200          | Wages                                   | 41600         |
| Subscriptions: 2010 | 2500          | Rent                                    | 18600         |
| 2011                | 30500         | Heating and lighting                    | 12800         |
| 2012                | 3500          | Postage and stationery                  | 3300          |
| Bar Sales           | 522700        | Insurance                               | 1800          |
| Sale of investments | 75000         | General expenses                        | 4600          |
|                     |               | Payments on account of<br>new furniture | 45000         |
|                     |               | Balance at bank,<br>31 December 2011    | <u>77500</u>  |
|                     | <u>648600</u> |   | <u>648600</u> |

The following information is also supplied:

|                                   | 31 Dec. 2010 | 31 Dec. 2011 |
|-----------------------------------|--------------|--------------|
| Bar stock, at cost                | 27200        | 31500        |
| Creditors for bar purchases       | 30600        | 35800        |
| Rent due                          | 1800         | 3600         |
| Heating and lighting expenses due | 1600         | 1900         |
| Subscriptions due                 | 2500         | 4000         |
| Insurance paid in advance         | 500          | 700          |

- 2) On 31 December 2010, the club held investments which cost Sh.50000. During the year ended 31 December 2011, these were sold for Sh.75000.
- 3) Furniture was valued at Sh.30000 on 31 December 2010. On June 2011, the club purchased additional furniture at a cost of Sh.52000. Depreciation of all furniture is to be provided for at the rate of 10% per annum.

**Required:**

- (a) Prepare an income and expenditure account for the year ended 31 December 2011 (8 marks)  
Prepare a balance sheet at that date. (6 marks)
- (b) Explain the difference between ( i ) Memorandum of association  
Articles of Association in the formation of companies (6 marks)