

MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBC 2107 & HPS 2202

**COURSE TITLE: INTRODUCTION TO ACCOUNTING 2&
FINANCIAL ACCOUNTING 2**

DATE: 17th AUGUST, 2015

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 8 Printed Pages. Please Turn Over. 

QUESTION ONE:

Amis, Lodge and Pym were in partnership sharing profits and losses in the ratio 5:3:2. The following trial balance has been extracted from their books of accounts as at 31 March 2014:

	Ksh	Ksh
Bank interest received		750
Capital accounts (as at 1 April 2013):		
Amis		80,000
Lodge		15,000
Pym		5,000
Carriage inwards	4,000	
Carriage outwards	12,000	
Cash at bank	4,900	
Current accounts:		
Amis	1,000	
Lodge	500	
Pym	400	
Discount allowed	10,000	
Discount received		4,530
Drawings:		
Amis	25,000	
Lodge	22,000	
Pym	15,000	
Motor vehicles:	80,000	
Accumulated depreciation (at 1 April 2013)		20,000
Office expenses	30,400	
Plant and machinery:		
At cost	100,000	
Accumulated depreciation (at 1 April 2013)		36,000
Provision for bad and doubtful debts (at 1 April 2013)		420
Purchases	225,000	
Rent, rates, heat and light	8,800	
Sales		404,500
Stock (at 1 April 2013)	30,000	
Trade creditors		16,500
Trade debtors	14,300	
	<u>Ksh 583,300</u>	<u>Ksh 583,300</u>

Additional information:

1. Stock at 31 March 2014 was valued at Ksh 35,000.
2. Depreciation on the fixed assets is to be charged as follows:
 - a. Motor vehicles – 25% on the reduced balance
 - b. Plant and machinery – 25% on the original cost.

There were no purchases or sales of fixed assets during the year to 31 March 2014.
3. The provision for bad and doubtful debts is to be maintained at a level equivalent to 5% of the total trade debtors as at 31 March 2014.
4. An office expense of Ksh 405 was owing at 31 March 2014, and some rent amounting to Ksh 1,500 had been paid in advance as at that date. These items had not been included in the list of balances shown in the trial balance.
5. Interest on drawings and on the debit balance on each partner's current account is to be charged as follows:

	£
Amis	1,000
Lodge	900
Pym	720

6. According to the partnership agreement, Pym is allowed a salary of Ksh13,000 per annum. This amount was owing to Pym for the year to 31 March2014, and needs to be accounted for.
7. The partnership agreement also allows each partner interest on his capital account at a rate of 10% per annum. There were no movements on the respective partners' capital accounts during the year to 31 March2014, and the interest had not been credited to them as at that date.

Required:

- a) Prepare the Partners an income statement for the year ended 31 March2014 **(10 marks)**
- b) The partners current accounts and a balance sheet as at 31 March2014 **(10 marks)**

1B) Explain the meaning of following terms.. **(10 marks)**

Production costs and Prime costs
 Articles of Association and Memorandum of association
 Partnership deed

QUESTION TWO:

The chief accountant of AZ Limited has extracted the following trial balance as at 31 October 2013.

	Sh.	Sh.
Authorized and issued capital		4000000
Share premium		500000
8% debenture stock		1000000
Profit and loss stock		5500000
Motor vehicles at cost	16500000	
Provision for depreciation on motor vehicle		3400000
Plant and machinery at cost	25800000	
Provision for depreciation on plant and machinery		6300000
Land buildings at cost	30000000	
Stock in hand 1 November 1998 – Finished goods	420000	
– Raw materials	380000	
– Work-in-progress	560000	
	Sh.	Sh.
Trade debtors	7360000	
Office furniture and equipment at cost	890000	
Provision for depreciation on office furniture and equipment		185000
Trade creditors	9500000	
Purchase of raw materials		28550000
Sales of finished goods	1350000	
Direct wages	395000	
Direct expenses	290000	
Factory expenses	350000	
Indirect materials	150000	
Factory insurance	485000	

Sales room expenses	620000	
Administration expenses	840000	
Office salaries and wages	656000	
Vehicles running expenses	640000	
Bad debts written-off		<u>1175000</u>
Balance at bank – overdrawn	<u>96610000</u>	<u>96610000</u>

Notes:

1. The directors recommended a dividend of 10% on the issued share capital and a transfer of Sh. 2000000 to a general reserve.
2. Debenture interest has not been paid
3. Depreciation is provided on straight-line method at 10% and 25% per annum on furniture and equipment, plant and machinery and motor vehicles respectively.
4. The overdraft interest of Sh. 725000 was communicated to the company by the bank on 5 November 2013 and therefore it has not been posted in the cash book.

Required:

Manufacturing account and an income statement account for the year ended 31 October 2013.

(12 marks)

Balance sheet as at 31 October 2013

(8 marks)

QUESTION THREE

Hobbs does not keep proper books of account. You ascertain that his bank payments and receipts during the year to 31 December 2012 were as follows:

Reciepts		Payments	
	£		£
Balance 1 Jan 2012	572	Purchases	10,007
Cheques for sales	13,179	Expenses	2,950
Cash banked	14,005	Drawings	11,250
Balance 31 Dec 2012	<u>3,751</u>	Delivery van	<u>7,300</u>
	31,507		31,507

From a cash notebook you ascertain:

	£
Cash in hand 1 January 2012	62
Cash takings	16,300
Purchases paid in cash	1,850
Expenses paid in cash	375
Cash in hand 31 December 19X8	65
Drawings by proprietor in cash	Unknown

You discover that assets and liabilities were as follows:

	1 Jan 2012	31 Dec 2012
	£	£
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:

1. Statement of Affairs as at 1 January 2012 (5 marks)
2. Income statement (5 marks)
3. Balance sheet as at 31st December, 2012 (5 marks)

3B)

A limited has an authorized share capital of 200,000 shares of Ksh1 each out of which only 150,000 share have been issued, Although the firm requested the shareholders to pay 80p per share, the shareholders were able to pay 50p per share.

Required:

Determine the:

- Authorized share capital
- Issued share capital
- Called up share capital
- Uncalled up share capital
- Paid up share capital (5 marks)

QUESTION FOUR

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

	£		£
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 December 2010	31 December 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

- 2) On 31 December 2010, the club held investments which cost Ksh500. During the year ended 31 December 2010, these were sold for Ksh750.
- 3) Furniture was valued at Ksh300 on 31 December 2010. On June 2011, the club purchased additional furniture at a cost of Ksh520.
- 4) 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. **(10 marks)**
- (b) Prepare a balance sheet at that date. **(10 marks)**