



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBC 2107

COURSE TITLE: INTRODUCTION TO ACCOUNTING II

DATE: 20th APRIL 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer any TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

QUESTION ONE

- Outline any five six contents of partnership agreement (5 Marks)
- Distinguish between non-purchased goodwill and purchased goodwill and explain the accounting treatment of each. (6 Marks)
- Highlight any four uses of ratio analysis in a business (4Marks)
- The accountant of Impala Sports Club has extracted the following information from the books of account for the year ended 31 March 2015:

Receipts	Sh.	Payments	Sh.
Balance brought forward	288,000	Salaries and wages	254,000
Subscriptions:		New equipment	565,000
Year 2013/2014	249,000	Repairs and maintenance	124,000
2014/2015	2,050,000	Office expenses	415,000
2015/2016	194,000	Printing and stationery	168,000
Dinner dance	723,000	Purchase of beverages	497,000
Beverage sales	657,000	Dinner dance expenses	315,000
Investments income	400,000	Refund of subscriptions	45,000
		Sports prizes	25,000
		Transport	248,000
		Investments	1,500,000
		Balance carried forward	<u>405,000</u>
	<u>4,561,000</u>		<u>4,561,000</u>
Balances as at		31 March 2014	31 March 2015
		Sh.	Sh.
Furniture and fittings (net)		240,000	-
Equipment (net)		690,000	-
Investments at cost		3,500,000	-
Subscriptions in arrears		300,000	375,000
Salaries accrued		68,000	72,000
Stock of beverages		162,000	184,000
Subscriptions in advance		85,000	-

Additional information:

- Subscriptions in arrears are written-off after twelve months.
- Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively.

3. Investments, which had cost Sh.500, 000 were sold on 30 March 2015 for Sh.625, 000. No entries have been made in the books in this respect.

Required:

- (a) Income and expenditure account for the year ended 31 March 2015. (8 marks)
 (b) Balance sheet as at 31 March 2015. (7 marks)

QUESTION TWO

The following balances have been extracted from accounts Bestly manufacturers as at 31 January 2015:

	Dr Sh	Cr Sh
Capital at 1 February 2014		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 2014:		
– 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 2014:		
– 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 2015 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 2015:, 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 2015.

Required:

Using the vertical method, prepare Bestly manufacturers' trading and profit and loss account for the year ended 31 January 2015: and a statement of financial position as at that date. (20 Marks)

QUESTION THREE

The summarized financial statements of Baraka Enterprises Ltd. are as follows:

Income statement for the year ended 30 September

	2014	2015
	Sh.'000	Sh.'000
Sales	20,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(21,000)</u>
Gross profit	5,000	7,000
Administrative expenses	<u>(3,800)</u>	<u>(4,600)</u>
Debenture interest		<u>(400)</u>
Net profit	<u>1,200</u>	<u>2,000</u>

Balance sheet as at 30 September

	2014	2015
	Sh.'000	Sh.'000
Assets:		
Non-current assets (net book value)	<u>11,000</u>	<u>14,000</u>
Current assets:		
Inventories	2,000	3,000
Trade and other receivables	2,500	2,800
Balance at bank	<u>-</u>	<u>500</u>
	<u>4,500</u>	<u>6,300</u>
Total assets	<u>15,500</u>	<u>20,300</u>
Equity and liabilities:		
Capital and reserves:		
Issued and fully paid		
1,000,000 ordinary shares of Sh.10 each	10,000	10,000
Revenue reserves	<u>3,000</u>	<u>4,100</u>
	<u>13,000</u>	<u>14,100</u>
Non current liabilities		
8% debentures	<u>-</u>	<u>5,000</u>
Current liabilities		

Trade and other payables	1,500	1,200
Bank overdraft	<u>1,000</u>	<u>-</u>
Total equity and liabilities	<u>2,500</u>	<u>1,200</u>
	<u>15,500</u>	<u>20,300</u>

Stock as at 1 October 2013 was Sh.5,000,000

Required:

For each year, calculate the following:

- (a) Gross profit margin (3 marks)
- (b) Inventory turnover (4 marks)
- (c) Return on equity (3 marks)
- (d) Return on assets (3 marks)
- (e) Acid test ratio (3 marks)
- (f) Current ratio (3 marks)

QUESTION FOUR

- a. Highlight the reasons why there may exist incomplete records in a business (6 marks)
- b. Outline the four main approaches in preparing final accounts where there are insufficient records (4 marks)
- c. List the steps used in Preparing the Final Accounts in presence of incomplete records (4 marks)
- d. Valentine Onyango has been operation as a sole trader and has provided the following information

31 December

	2014 Sh. '000'	2015 Sh'000'
Motor vehicle:		
Cost	7,500	7,500
Depreciation	3,000	4,500
Stock	2,960	3,450
Debtors	1,150	2,060
Bank	925	2,125
Cash	263	54
Creditors	2,860	3,340

He has estimated his drawings for 2015 at sh. 12,500,000.

Required

Estimate her net profit for the year ended 31st December 2015 (6 Marks)