



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

MAIN CAMPUS

ORDINARY 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: DECEMBER, 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

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

MRUC observes ZERO tolerance to examination irregularities

**QUESTION ONE:**

- a) Mwandawiro runs a small business. He prefers to manufacture his own goods in an attempt to save on the operational costs. The following information was extracted from his books for the year 2012:

B Mwandawiro Trial Balance as on 31 December 2012

	Dr	Cr
Stock of raw materials 1.1.2012	21,000	
Stock of finished goods 1.1.2012	38,900	
Work in progress 1.1.2012	13,500	
Wages(direct £180,000: factory	325,000	
indirect£145,000)		
Royalties	7,000	
Carriage inwards (on raw materials)	3,500	
Purchases of raw materials	370,000	
Productive machinery (cost £280,000)	230,000	
Accounting machinery (cost £20,000)	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 1.1.2012		29,680
	<u>1,421,800</u>	<u>1,421,800</u>

Notes at 31.12.2012

1. Stock of raw materials £24,000, stock of finished goods £40,000, work in progress £15,000.
2. Lighting, and rent and insurance are to be apportioned: factory 5/6ths, administration 1/6th.
3. Depreciation on productive and accounting machinery at 10 per cent per annum on cost.

Required: Prepare a manufacturing, Trading Profit and Loss Account for the year ended 31 Dec. 2012. (20 marks)

- b) Highlight any FIVE differences between unlimited partnerships and limited companies (10 marks)

QUESTION TWO:

- a) 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.(8 marks)
 - ii. Prepare a balance sheet at that date. (7 marks)
- b) 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. (5 marks)

QUESTION THREE:

- a) 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)

QUESTION FOUR:

- i. Explain the meaning of following terms. (8 marks)
 - Production costs and Prime costs
 - Articles of Association and Memorandum of association
- ii. Explain any FOUR categories of ratios used in the analysis of financial statements. For each of these ratios, provide ONE example, and give the formulae used in its calculation (12 marks)