MURANG'A UNIVERSITY COLLEGE

(A Constituent College of JomoKenyatta University of Agriculture and Technology)

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

MAIN CAMPUS

UNIVERSITY EXAMINATIONS
ORDINARY
2015/2016 ACADEMIC YEAR

YEAR ONE SEMESTER THREE EXAMINATIONS

DIPLOMA IN COOPERATIVE MANAGEMENT (DCM)

COURSE CODE: BS 1106 **COURSE TITLE: FINANCIAL ACCOUNTING**

DATE: 17 DECEMBER, 2015 **TIME: 2 HOURS**

INSTRUCTIONS TO THE CANDIDATES

THIS PAPER CONSIST OF FOUR QUESTIONS

Question one (1) is Compulsory

Answer Any Other Two (2) Questions

MRUC observes ZERO tolerance to examination irregularities

This paper consists of 5 printed pages. Please turn over ⟹

QUESTION ONE

Alan, Bob and Charles are in partnership sharing profits and losses in the ratio 3:2:1 respectively.

The balance sheet for the partnership as at 30 June 2015 is as follows;

Fixed Assets	£	£
Premises		90,000
Plant		37,000
Vehicles		15,000
Fixtures		2,000
		144,000
Current Assets		
Stock	62,379	
Debtors	34,980	
Cash	760	98,119
		£242,119
Capital		
Alan		85,000
Bob		65,000
Charles		35,000
		185,000
Current account		
Alan	3,714	
Bob	(2,509)	
Charles	4,678	5,883
Loan – Charles		28,000
Current liabilities		
Creditors		19,036
Bank overdraft		4,200
		£242,119

Charles decides to retire from the business on 30 June 2015, and Don is admitted as a partner on that date. The following matters are agreed:

a) Certain assets were revalued;
   - Premises £120,000
   - Plant £35,000
   - Stock £54,179
b) Provision is to be made for doubtful debts in the sum of £3,000.
c) Goodwill is to be recorded in the books on the day Charles retires in the sum of £42,000. The partners in the new firm do not wish to maintain a goodwill account so that amount is to be written back against the new partners' capital accounts.
d) Alan and Bob are to share profits in the same ratio as before, and Don is to have the same share of profits as Bob.
e) Charles is to take his car at its book value of £3,900 in part payment, and the balance of all he is owed by the firm in cash except £20,000 which he is willing to leave as a loan account.
f) The partners in the new firm are to start on an equal footing so far as capital and current accounts are concerned. Don is to contribute cash to bring his capital and current accounts

to the same amount as the original partner from the old firm who has the lower investment in the business.

The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.

Required;

a) Two types of goodwill that you are familiar with in partnership accounts. (6 marks)

b) Account for the above transactions, including goodwill and retiring partners' accounts. (12 marks)

c) Prepare a statement of financial position for the partnership of Alan, Bob and Don as at 30 June 2015.

(12marks)

TOTALS:30MARKS

QUESTION TWO

Kiprotich, Onyango and Wako were partners in a manufacturing and retail business and shared profits and losses in the ratio 2:2:1 respectively

Given below is the balance sheet of the partnership as at 31 March 2013.

Balance sheet as at 31 March 2013

Assets	Sh.	Sh.
Non-current assets:		
Fixed assets		465,000
Current assets:		
Stock	294,000	
Debtors	209,000	503,000
		968,000
Capital and liabilities:		
Capital accounts:		
Kiprotich	160,000	
Onyango	140,000	
Wako	200,000	
		500,000
Current accounts:		
Kiprotich	65,300	
Onyango	49,000	
Wako	53,000	
		167,300
		667,300
Current Liabilities:		
Bank overdraft	48,000	
Trade creditors	252,000	
		300,700
		968,000

Additional information:

1. On 1 April 2013, Wako retired from the partnership and was to start a business as a sole trader while Kiprotich and Onyango continued in partnership.

2. On retirement of Wako, the manufacturing business was transferred to him while Kiprotich and Onyango continued with the retail business

The assets and liabilities transferred to Wako were as follows:

	Net book value	Transfer value
	Sh	Sh.
Fixed assets	260,000	306,000
Stocks	166,000	157,000
Debtors	172,000	165,000
Creditors	156,000	156,000

Wako obtained a loan from a commercial bank and paid into the partnership the net amount due for him.

3. On retirement of Wako form the partnership, goodwill was valued at Sh.200, 000 but was not to be maintained in the books of the partnership of Kiprotich and Onyango.
4. After retirement of Wako on 1 April 2013, Kiprotich and Onyango agreed on the following terms and details of the new partnership.

    - Kiprotich and Onyango to introduce additional capital of Sh.48, 000 and Sh.68, 000 respectively.
    - Each partner was entitled to interest on capital at 10% per annum with effect from 1 April 2013 and the balance of the profits be shared equally after allowing for annual salaries of Sh.72, 000 to Kiprotich and Sh.60, 000 to Onyango.

5. The profit of the new partnership before interest on capitals and partners' salaries was Sh.240,000 for the year ended 31 March 2014.
6. The profits made by the new partnership increased stocks by Sh.100,000, debtors by Sh.90,000 and bank balance by Sh.50,000.
7. Drawings by the partners in the year were Kiprotich Sh.85,000 and Onyango Sh.70,000.

Required:

a) Income statement and appropriation account for the year ended 31 March 2014.(4 marks)
b) Capital accounts for the year ended 31 March 2014 (4 marks)
c) Current accounts for the year ended 31 March 2014. (4 marks)
d) Statement of financial position of the new partnership as at 31 March 2014. (8 marks)

(Total: 20 marks)

QUESTION THREE

a)

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 20X8

Zeta Limited *Omega Limited*

Sales	£'000	£'000	£'000	£'000
Cost of sales		4,000		6,000
Opening stock				
Purchases	200		800	
	3,200		4,800	
Less: closing stock	3,400		5,600	
	400		800	
Gross profit		3,000		4,800
		1,000		1,200
Expenses				
Distribution costs				
Administrative expenses	200		150	
Interest paid	290		250	
	10		400	
Profit before tax		500		800
Taxation		500		400
Net profit for the period		120		90
		380		310

Balance Sheets As At 31 March 20x8

	Zeta Limited		*Omega Limited*	
	£'000	£'000	£'000	£'000
Fixed assets				
Tangible assets				
Warehouse and office	1,200		5,000	
buildings	600		1,000	
Equipment and vehicles		1,800		6,000
Current assets	400		800	
Stock	800		900	
Debtor – trade	150		80	
- sundry	-		100	
Cash at bank	1,350		1,180	
Current liabilities	(800)		(800)	
Creditors – trade	(80)		(100)	
- sundry	(200)		-	
Overdraft	(120)		(90)	
Taxation		150		890
		1,950		6,890
		-		(4,000)
Long-term loan (interest 10%		1,950		2,890
pa)		1,000		1,600
		-		500
Share capital		950		790
Revaluation reserve		1,950		2,890
Profit and loss account				

Required:

a) Calculate for each company a total of eight ratios which will assist in measuring the three aspects of profitability, liquidity and management of the elements of working capital.

Show all workings.

(8 marks)

b) Based on the ratios you have calculated in (a), compare the two companies as regards their profitability, liquidity and working capital management.

(8 marks)

c) Omega Ltd is much more highly geared than Zera Ltd. What are the implications of this for the two companies?

(4 marks)

TOTAL: (20 marks)

QUESTION FOUR

a) Explain five limitations of using ratios in solving problems of any business enterprise (5marks)

b) Distinguish between trend and cross sectional analysis (5marks)

c) Explain the following types of ratios.

i) Liquidity
ii) Gearing
iii) Profitability
iv) Activity
v) Equity

(10marks)

TOTAL:20marks

THE END ………………………………………………………………………………………