

**ZU/WI/7/EXM/6**

**ACADEMIC YEAR 2015/2016**

**ORDINARY EXAMINATION FOR THE BACHELOR OF BUSINESS MANAGEMENT AND ADMINISTRATION**

**ACCT102: FINANCIAL ACCOUNTING II**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS*: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIO*NS**

**QUESTION ONE**

(a) Explain the legal provisions regarding the establishment and subsequent use of the following reserves:

 (i) Share premium account. (4marks)

 (ii) Capital redemption reserve fund. (4marks)

* 1. Masaba Company Ltd. is a retail provider with an authorised share capital of

 800,000 Sh.20 ordinary shares and 250,000 8% Sh.20 redeemable preference shares.

The following financial information reflects the position of the company as at 31 December 2001 after preparing the Trading, profit and loss account:

|  |  |
| --- | --- |
|  | **Sh.** |
|  | **`000'** |
| Provision for depreciation Fittings | 1,500, |
|  Motor vehicles | 3,740 |
| Goodwill | 1,200 |
| Issued share capital: 600,000 Sh.20 Ordinary shares | 12,000 |
|  250,000 Sh.20 Redeemable preference shares | 5,000 |
| Share premium account | 400 |
| Trade debtors and prepayments | 1,708 |
| Land and buildings at valuation (Cost Sh.4, 400,000) | 18,400 |
| Capital redemption reserve fund | *3,000* |
| Fittings at cost | 3,000 |
| Motor vehicles at cost | 7,940 |
| 10`% Debentures | 1,600 |
| Trade creditors and accruals | 960 |
| Short-term investments (Market value Sh.860,000) | 7 8 0 |
| Stock at 31 December 2001 | 2,960 |
| Bank overdraft | 540 |
| Revaluation reserve | 1,000 |
| Net profit for the year | 1,440 |
| Retained profit at 1 January 2001 | 4,460 |
| General Reserve | 1,100 |
| Provision for doubtful debts | 48 |
| Interim dividend paid - Ordinary | 600 |
|  - Preference | 200 |

The following resolutions relating to year ended 31 December 2001 have been passed by the board of directors of the company

1. Transfer Sh.500,000 to General Reserve.

2. Provide for 5% final dividend and final preference dividend on shares issued and

 outstanding on 31 December 2001.

3. Make a bonus issue of 100,000 fully paid ordinary shares from the retained profits

 account.

**Required:**

1. The appropriations account of Masaba Company Ltd. for the year ended 31 December 2001. (4 marks)

(ii) The balance sheet of Masaba Company Ltd. as at 31 December 2001. (8 marks)

 **(Total: 20 marks)**

**QUESTION TWO**

The following are the summarized financial statements of Deweto limited:

**Trading and profit and loss account for the year ended 31 October.**

|  |  |  |
| --- | --- | --- |
|  | **2002** | **2003** |
|  | **Sh.’000** | **Sh.’000** |
| Sales | 93,500 | 11,350 |
| Cost of sales | (55,120) | (72,970) |
| Gross profit | 38,380 | 38,380 |
| Expenses | (26,230) | (23,960) |
| Net profit before interest and tax | 12,150 | 14,420 |
| Loan interest | \_(450) | \_\_(375) |
| Net profit before tax | 11,700 | 14,045 |
| Taxation  | (3,510) | (5,413.5) |
| Net profit after tax | 8,190 | 8,631.5 |
| Dividend | (6,00) | (6,000) |
| Retained profit | 2,190 | 2,631.5 |

**Balance sheet as at 31 October**

|  |  |  |
| --- | --- | --- |
|  | **2002** | **2003** |
|  | **Sh.’000** | **Sh.’000** | **Sh.’000** | **Sh.’000** |
| **Fixed assets:** |  |  |  |  |
| Freehold premises | 10,500 |  | 10,500 |  |
| Plant and equipment | 7,200 |  | 9,500 |  |
| Motor vehicles | \_5,350 | 23,050 | \_7,300 | 27,300 |
| **Current assets:** |  |  |  |  |
| Stock | 12,500 |  | 11,800 |  |
| Debtors | 9,850 |  | 8,900 |  |
| Bank balance and cash in hand | \_5,950 | 28,300 | 5,864.5 | 26,564.5 |
| **Current liabilities:** |  |  |  |  |
| Creditors | 8,350 |  | 7,830 |  |
| Taxation | 3,510 |  | 5,413.5 |  |
| Dividend | 3,000 | (14,860) | 3,000 | (16,243.5) |
|  |  | 36,490 |  | 37,621 |
| Ordinary share capital |  | 30,000 |  | 30,000 |
| Reserves |  | \_3,490 |  | \_5,121 |
|  |  | 33,490 |  | 35,121 |
| 15% loan |  | \_3,000 |  | \_2,500 |
|  |  | 36,490 |  | 37,621 |

**Note:**

1. 80% of the sales are no credit
2. The stock as at 31 October 2001 was valued at Sh.13,000,000

**Required:**

1. Calculate two ratios for each classification identified below for the financial years ended 31 October 2002 and 2003:

(i) Profitability ratios (4 marks)

(ii) Liquidity ratios (4 marks)

(iii) Gearing ratios (4 marks)

(iv) Activity ratios (4 marks)

1. Comment on Deweto Ltd’s profitability and liquidity positions. (4 marks)

 **QUESTION THREE**

The following trial balance was extracted from the books of Literary and, Philosophical Society as at 30 September 2000:

|  |  |  |
| --- | --- | --- |
|  | **Sh.** | **Sh.** |
| Balance at bank current account | 724,800 |  |
| Accumulated fund 1 October 1999 |  | 5,771,200 |
| Land and building at cost | 3,700,000 |  |
| Debtors for subscription | 62,000 |  |
| Furniture and fittings | 1,874,000 |  |
| Provision for depreciation of furniture and fittings |  | 284,000 |
| Subscriptions |  | 1,450,800 |
| Lecturers’ fees | 920,000 |  |
| Lecturers’ travel and accommodation expenses | 358,000 |  |
| Donations |  | 108,000 |
| Camera and projector repairs | 17,000 |  |
| Projectors, cameras and audio equipment | 190,400 |  |
| Depreciation of equipment |  | 54,400 |
| Rates and water | 277,000 |  |
| Lighting and heating | 367,200 |  |
| Rental of rooms |  | 495,000 |
| Wages - caretaker | 880,000 |  |
| Restaurant | 1,600,000 |  |
| Bar staff | 800,000 |  |
| Purchase of food | 1,565,800 |  |
| Stock- bar I October 1999 | 473,600 |  |
| Bar receipts, |  | 4,032,000 |
| Bar purchases | 2,842,000 |  |
| Restaurant receipts |  | 3,642,000 |
| Loan |  | 1,600,000 |
| Deposit account - bank | 1,000,000 |  |
| Interest payable and receivable |  |  36,000 |
| Creditors for bar an d food | \_\_\_\_\_\_\_\_ | 178,400 |
|  | 17,651,800 | 17, 651,800 |

Additional information:

1: The bar stock was valued at Sh.642.800 as at 30 September 2000.

2. It is expected that of the debtors for subscriptions, Sh.43.600 will not be collectable.

3. The interest account is net. The loan is at a concessional rate of 4% while I0% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.

4. An invoice for Sh.43.000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation.

5.Depreciation for the rear is to be provided as follows:

 Furniture and fittings Sh. 194.000

 Projectors. Cameras etc. Sh. 19.000

**Required:**

(a) Bar and restaurant trading account for the year ended 30 September 2000. (6 marks)

(b) An income and expenditure account for the year ended 30 September 2000. (8 marks)

(c) A balance sheet as at 30 September 2000. (6 marks)

 **(Total: 20 marks**

**QUESTION FOUR**

 The following balances have been extracted from the books of Limuru Manufacturers, a small scale manufacturing enterprise, as at 31 December 2002:

|  |  |  |
| --- | --- | --- |
|  |  | **Sh.** |
|  |  | **‘000’** |
| Stocks as at 1 January 2002: | Raw materials | 7,000 |
|  | Work in progress | 5,000 |
|  | Finished goods | 6,900 |
| Purchases of raw materials |  | 38,000 |
| Direct labour |  | 28,000 |
| Factory overheads: | Variable | 16,000 |
|  | Fixed | 9,000 |
| Administrative expenses: | Rent and rates | 19,000 |
|  | Lighting | 6,000 |
|  | Stationery and postage | 2,000 |
|  | Staff salaries | 19,380 |
| Sales |  | 192,000 |
| Plant and machinery: | At cost | 30,000 |
|  | Provision for depreciation | 12,000 |
| Motor vehicles (for sales deliveries): | At cost | 16,000 |
|  | Provision for depreciation | 4,000 |
| Creditors |  | 5,500 |
| Debtors |  | 28,000 |
| Drawings |  | 11,500 |
| Balance at bank |  | 16,600 |
| Capital at 1 January 2002 |  | 48,000 |
| Provision for unrealized profit at 1 January 2002 |  | 1,380 |
| Motor Vehicle running costs |  | 4,500 |

**Additional information:**

1. Stocks at 31 December 2002 were as follows:

|  |  |
| --- | --- |
|  | **Sh.** |
|  | **‘000’** |
| Raw materials | 9,000 |
| Work in progress | 8,000 |
| Finished goods | 10,350 |

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.

3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.

 Plant and machinery - 10% per annum

 Motor vehicles - 25% per annum

4. Amounts accrued at 31 December 2002 for direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2002 amounted to Sh. 2,000,000.

**Required:**

(a) Manufacturing, trading and profit and loss account for the year ended 31 December 2002. (12 marks)

(b) Balance sheet as at 31 December 2002. (8 marks)

**QUESTION FIVE**

 **(Total: 20 marks)**

A & B are partners sharing profits & loss in the ratio 3:2 after crediting interest on capital at 5% per annum, and salary to B of shs 20,000 per month. Their Trial balance after the profit & loss a/c was drawn at 31/12/03 is as follows,

 A & B Trial balance.

 Dr Cr

 Shs ‘000’ Shs ‘000’

Land & buildings 5,000

Motor Vehicle 4,000

Furniture & fitting 3,000

Accumulated depreciation

 Land and building 2,000

 Motor vehicles 1,000

Furniture & fittings 500

Stock 1,000

Debtors 2,000

Cash 1,000

Creditors 1,000

Capital A/C

 A 2,000

 B 1,000

Current A/C

 A 500

 B 500

Drawing

 A 1,000

 B 800

Net profit 9300

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 17,800 17,800

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**Required: Prepare**

a) Appropriation account. (5 marks)

b) Partners current account. (5 marks)

c) Balance sheet as at 31st /12/2003. (10 marks)