

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS& ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 209**

**COURSE TITLE:** **FINANCIAL ACCOUNTING II**

**DATE: 9TH MAY 2016 TIME: 2.30PM-4.30PM**

**INSTRUCTIONS TO CANDIDATES**

* Answer Question **ONE** and any other **THREE** questions
* Do not write on the question paper

*This paper consists of 7 printed pages. Please turn over.*

**QUESTION ONE**

**a)** Explain any threedistinguishing characteristics of branch and departmental accounts.  **(6 Marks**)

b) Discuss the accounting treatment of interdepartmental transfers of goods or employment of staff or performance of services exchanged between departments in departmental accounting. **(4 Marks)**

c) **MWAMBU GARAGE** has three departments viz: Cars , Wheelers and Servicing departments. the former two sell spare parts and occupy a godown and a show room . The servicing department uses a garage and adjoining site.

The following particulars are extracted from the books of the business for the year ended 31st March ,2015.

shs

Stock 1.4.2014 :

Cars 100,000

Wheelers 27,500

Purchases:

Cars 350,000

Wheelers 110,000

Sales :

Cars 600,000

Wheelers 300,000

Servicing 100,000

Wages of counter -salesmen

Cars 30,000

Wheelers 12,000

Wages of garage labour 10,800

Office salaries and wages 12,000

Go down and showroom rent 24,000

Land and garage building 272,000

Office expenses 36,000

Garage equipment 100,000

Showroom Furniture and fittings 70,000

Office Van 24,000

Sundry debtors 12,000

Sundry creditors 60,000

Bank Overdraft 17,200

Power and lighting 36,000

Bank interest 1,000

Cash in hand 9,00

Drawings account 12,000

Capital 163,000

Additional information

1. Included in land and garage building the cost of site used by the servicing department sh. 200,000.
2. Closing stock on 31.3.2015 at the departments

Cars sh. 90,000

Wheelers sh. 32,500

iii. 50% of Power and Lighting is to be charged to Servicing Department , the balance equally to the other departments

iv) Rates for depreciation are ; Building 5%;Showroom Furniture 10%; Office Van 20%.

v) Outstanding expenses were ; interest 150;office expenses 2,000

vi) Interest and all expenses relating to the office are to be considered common and charged to the general statement of comprehensive income .

vii) The departments using the showroom share the space and furniture and fittings equally.

**Required**

Departmental statement of comprehensive income for the year ended 31st December 2015 and Statement of Financial Position as at that date**.**

**(15 marks)**

**QUESTION TWO**

**a)** Discuss the following terms as used in accounting for bills of exchange.

i) Holder in due course(ii) Endorsement and (iii)Drawee or Acceptor

**(6 marks)**

b) On 1st January, 2015, X sells goods to Y for Sh.. 8,000 and draws four bills of exchange on him. The first for sh.1,500 for one month, the second for sh.1,000 for 2 months, the third for sh.2,000 for 3 months and the fourth for sh.3,500 for 4 months. Y accepts and returns these bills to X. The second bill is discounted with the bank at 12% p.a. on 4th January, 2015 and on the same date the third bill is endorsed by X to his creditor Z. The fourth bill is sent to the bank for collection on 10th January, 2015.

**Required**

Pass journal entries in the book of X and Y assuming that all bills are met on their due dates. **(9 marks)**

**QUESTION THREE**

A,B and C were partners in business ,sharing profits and losses in the ratio 2:1:1 . Their statement of financial position as at 31.3.2015 is as follows.

A,B and C partnership

Statement of financial position

as at 31.12.2015

ASSETS sh sh

Non-current assets 300,000

Investments 50,000

**Current assets :**

Stock 100,000

Debtors 60,000

Bank 150,000 310,000

**Total assets 660,000**

Capital and liabilities

Capital accounts:

A 200,000

B 100,000

C 100,000 400,000

Current Accounts:

A 40,000

B 20,000 60,000

Unsecured loans 200,000

**Total capital and liabilities**  **660,000**

On 1.4.2015 it is agreed among the partners that BC (P) Ltd , a newly formed company with B and C having each taken up 100 shares of sh. 10 each will take over the firm as a going concern including goodwill excluding cash and bank balances. The following points are also agreed upon .

1. Goodwill is valued at sh.120,000
2. All other assets will be taken over at book values.
3. The purchase consideration will be payable partly in shares of sh.10 each and partly in cash. Payment in cash being to meet the requirements to discharge A, who has agreed to retire.
4. B and C are to acquire equal interest in the new company.
5. Expenses of liquidation sh.40,000

**Required.**

Prepare the following accounts necessary to convert the partnership to a limited company.

i) The realization account **(4 Marks)**

ii) Partners capital accounts **(7 Marks)**

iii) Cash and bank account **(2 Marks)**

iv) BC(P) Ltd account**. (2 Marks)**

**QUESTION FOUR**

a) Discuss the significance of the following terms as used in company accounts.

1. Market value of capital stock
2. Par value of capital stock
3. Preferred stock **(6 marks )**

b) The following list of balances ware extracted from the books from the books of XYZ limited as at 31st March 2015. sh.

Ordinary share capital -ordinary shares of sh1 each fully paid 200,000

Share premium account 20,000

Retained earnings at 31st march 2014 15,000

Cost of goods sold 350,000

Rates and heat 11,400

Telephone and postages 5,600

Salaries 21,000

Director's emoluments 12,000

Motor vehicle expenses 24,100

Sales 500,000

Debtors 21,700

Stock in trade 38,000

Freehold property at cost 140,000

Fixtures and fittings at cost 120,000

Motor vehicles at cost 80,000

Provision for depreciation

-Fixtures and fittings 72,000

- Motor vehicles 16,000

Balance at bank 7,000

Creditors 7,800

Additional information

1. The authorized capital of XYZ is sh.250,000
2. The company's freehold property was valued at sh. 190,000 on 1st March 2015,the company's board of directors has decided that this valuation should be reflected in the accounts.
3. (i) Rates ,light and heat charges prepaid at 31.3.2015 amounted to sh.2,300
   1. (ii) Accrued charges at 31.3.2015 were:
      * 1. Telephone and postages sh.900 and
        2. Motor vehicle expenses sh.300
4. Depreciation is provided annually on the cost of Fixtures and fittings at the rate 5% and motor vehicles at the rate 20%.
5. In January 2015 the company sold a motor vehicle which has been bought for sh.8,000 in January 2012 . the only entry in the company's books of account relating to the sale concerns the receipt of the sale proceeds of sh.1,500 which has been credited to Motor vehicle expenses.
6. The directors are recommending that a dividend of 15% be paid on the ordinary shares for the year ended 31.3.2015.

**Required**

The statement of comprehensive income for the year ended 31.3.2015 and statement of financial position as at that date. **(9 Marks)**

**QUESTION FIVE**

**a)** Briefly discuss three types of losses the consequential insurance policy is taken to cover**. (5 Marks)**

b) On 1st November ,2015 a severe fire broke out in the business of Bad Luck Co. ltd. The indemnity period lasted for 4 months during which the sales of the company were reduced to sh. 200,000 only. The company closes its account on 30th June every year . The profit and loss account for the year ended 30th June 2015 is given below

Statement of comprehensive income

for the year ended 30th june,2015

Sh sh.

Sales 475,000

Less: **Cost of goods sold**

Opening stock 50,000

Add: purchases 300,000

Cost of goods available for sale 350,000

Less: Closing stock (25,000) 325,000

**Gross profit 150,000**

**Expenses**

Variable expenses (78,750)

Standing charges (36,250) (115,000)

**Net profit 35,000**

The company took a loss of profit policy for a sum of sh. 60,000 . The sales of the company for the 12 months ending the date of fire were sh. 500,000 and for 4 months from 1st November ,2014 to 28th february,2015 were sh.150,000.

It was noted that the sales for the first four months of the year under indemnity were20% higher than previous year .

**Required .**

Compute the claim for loss of profit. **(10 Marks)**

............................................................................END...................................................................