MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC AFFAIRS, RESEARCH & EXTENSION

UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER 1/II EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:- **BBM 209**

COURSE TITLE:- **FINANCIAL ACCOUNTING II**

DATE:- 3RD SEPTEMBER, 2014 **TIME:- 2.00P.M. - 5.00P.M.**

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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BBM 209: FINANCIAL ACCOUNTING II
EXAMINATION FOR 2014/2015 ACADEMIC YEAR

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

QUESTION ONE.

The authorized share capital of Kedenko Limited consists of 75,000 redeemable preference shares of Sh.10 each and 1,500,000 ordinary share of Sh.25 each. The former are to be redeemed during 2018.

The trial balance of Kedenko Limited as at 30 June 2013 was as follows:

	Sh. '000'	Sh. '000'
Ordinary Share capital (shares fully paid)		15,375
6% redeemable preference share capital		750
Share premium account		3,150
Profit and loss account (1 July 2012)		21,600
10% convertible loan stock		8,000
Deferred tax		1,080
Inventories (1 July 2012)	25,073	
Trade receivable	34,979	
Trade payables		25,425
Provision for doubtful debts		90
Wages and salaries payable		473
Value added tax payable		681
Interim dividend paid	430	
Freehold land, at cost	848	
Building at cost	5,100	
Plant at cost	30,750	
Provision for depreciation on building		398
Provision for depreciation on plant		12,059
Long-term investment quoted	3,525	
Interest paid	450	
Purchases	141,450	
Preferred dividend paid	32	
Profit on sale of plant		173
Bad debts	23	
Sales		179,100
Dividend received from investments (gross)		300
Installment tax and withholding tax paid	738	
Wages and salaries	24,450	
Bank	806	
	268,654	**268,654**

Additional information

1. The 10% convertible loan stock is secured against the plant.
2. (i.) During the year noncurrent assets were purchased as follows
   Buildings Sh.750,000 and plant Sh.4,050,000.

(ii). Plant with an original cost of Sh.1,500,000.

3. Depreciation is to be charged as to buildings Sh.53,000 and plant Sh.690,000.
4. The quoted investments had a market value at 30 June 2013 of Sh.6,750,000.
5. The wages and salaries figure includes the following:

Directors Salaries	122,00
General Manager	33,000
Company Secretary	23,000

6. The firm had signed a contract for Sh.23,243,000 being the lower of cost and net realisable value.
7. Sh.75,000 needs to be transferred from the deferred tax account.
8. The stock as at 30 June 2013 was Sh.23,243,000 being the lower cost and net realisable value.
9. The following provisions need to be made:
   (i). Audit fees of Sh. 53,000
   (ii). A final dividend on ordinary shares of Sh.35 per share. This had been proposed before the year end.
   (iii) The provision of doubtful debts is to be adjusted to Sh.120,000.
   (iv). Corporate tax of the year's profit is estimated at Sh. 4,290,000. Last year's tax was overestimated by Sh.15,000: this figure had been netted off against the installment and with-holding tax paid.

10. After payment of the preference dividend in March 2013, the company decided to redeem these shares and this was done in June 2013. No entries have been made in the books in respect of the same. The shares were redeemed at a premium of 5% and this is to be written – off in the share premium account.

Required:

(a) An Income Statement (using the cost of sales method: do not classify expenses according to their functions). (8mks)

(b) A statement of Changes in Equity for the year ended 30 June 2013. (8mks)

(c) A Balance Sheet as at that date in a form suitable for publication and conforming (as far as the information permits) with the requirements of the Companies Act and IFRS (9mks)

QUESTION TWO.

Nkobe Ltd. whose head office is in Nairobi, operate a branch at Eldoret. All goods are purchased by the head office and invoiced to and sold by the branch at cost plus 33 1/3 %. Other than sales ledger kept at Eldoret , all transactions are recorded in the books of head office in Nairobi.

The following particulars are given of the transactions at the branch during the year ended 31st December 2013:

	Sh. '000'
Stock on hand, Jan.1, 2013, at invoice price	44,000
Debtors jan.1, 2013	39,460
Stock on hand, 31st December 2013, at invoice price	39,480
Goods sent from Nairobi during the year at invoice price	248,000
Credit sales	210,000

Cash sales	24,000
Returns to the head office at invoice price	10,000
Invoice value of goods stolen	6,000
Bad debts written off	1,480
Cash from debtors	224,000
Normal loss at invoice price due to wastage	1,000
Cash discount allowed to debtors	4,280

Required:
Write up the branch accounts, including branch profit and loss account, in the ledger of the head office for the year ending 31st December 2013. (15mks)

QUESTION THREE.
Jipcho, Kiptum and Limo were partners in JKL Enterprises. The partnership manufactured items of equipment, which were hired out for outdoor activities. They shared profit and losses equally after providing for interest on their capital balances, at the beginning of the year, at the rate if 5% per annum.

The trial balance extracted from the partnership's books of account as at December 2012 was as follows:

	Sh.'000'	Sh.'000'
Non current assets	980	
Joint life assurance policies	300	
Cash and cash equivalents		600
Stock of raw materials	970	
Accounts payable		770
Accounts receivable	400	
Capital accounts: Jipcho		520
Kiptum		260
Limo		240
Joint life assurance fund		300
Customer deposits		820
Work-in-progress	860	
	3,510	3,510

Additional information

1. Due to some disagreement on the running of the firm, the partners decided to dissolve the partnership on 31 March 2013 after the following events had taken place.

	Sh.
Credit purchases of raw materials	202,500
Raw materials used in production	357,500
Direct wages paid	780,000
Payment to suppliers of raw materials	450,000

Credit sales of finished goods		2,800,000
Cash received from credit customers		2,250,000
Payment for general expenses		1,596,500
Cash drawings:	Jipcho	260,000
	Kiptum	150,000
	Limo	140,000

2 Joint life assurance policies premium amounting to Sh. 60,000 was on 15 February 2013. The policies covered the lives of the three partners.

3 Customers were required to pay a deposit for special orders. As at 31 March 2013, the partners had supplied all goods relating to special orders.

4 Work-in-progress as at 31 March was valued at Sh. 457,000."

5 The partnership ceased operations on31 March 2013 with Jipcho taking over a motor vehicle at a valuation of Sh. 106,000. The other assets were sold and realised on piecemeal basis. Any cash available was distributed immediately.

The assets were realised as follows:

Date	Asset	Amount(Sh.)
31 March 2013	Joint life assurance policies	450,000
15 April 2013	Accounts receivable (part)	280,000
15 April 2013	Raw materials (part)	850,000
30 April 2013	Accounts receivable	585,000
30 April 2013	Raw materials and work -in-progress	1,207,000
15 March 2013	Non-current assets	1,050,000

Required:

(a) Statement of distribution of cash received. (5mks)

(b) Partner's capital accounts showing balances as at 31 March 2013 and 15 May 2013. (6mks)

(c) Realisation account. (2mks)

(d) Bank account. (2mks)

QUESTION FOUR.

a. Discuss the provisions of the Company's Act (Cap 486 – laws of Kenya) with regard to the preparation of the published statements. (8mks)

b. Discuss the relevant IFRS in published statements (7mks)

QUESTION FIVE.

Kedenko Ltd, which operates a wholesale warehouse had a fire on its premises on 30th April 2013 which destroyed most of the building although stock to the value of Sh3,960,000 was salvaged. The company has an insurance policy (with suitable average clauses) covering stock for Sh600,000,000 building Sh800,000,000 and loss of profits including standing charges for Sh250,000,000 with a six-month period of indemnity. The company's last profit and loss account for the year ended 31 March 2013 showed the following position:

Trading Profit and Loss A/C for the year ended 31 March 2013

	Sh 000		Sh 000
Sales			2,000,000
Less cost of sales			
Opening stock	412,500		
Purchases	1,812,500		
	2,225,000		
Less closing stock	(525,000)		(1,700,000)
Gross Profit			300,000
Interest income			5,000
Insured Standing Charges		167,500	
Other expenses		80,000	(247,500)
Net Profit			57,500

The company's records showed that sales for April 2013 had been the same as for the corresponding month in the previous year - at Sh100,000,000; payments made to creditors in April were Sh106,680,000; and at the end of that month balances owing to trade creditors had increased by 3,320,000. The company's business was disrupted until the end of July, during which period, turnover fell by Sh180,000,000 - compared with the same period in the previous year. It was agreed that ¾ of the building had been lost, and at the same time of the fire, it had been worth Sh1,000,000,000.

Required: Ascertain the amount of various claims to be lodged with the insurers. (15mks)

QUESTION SIX.

a. Explain the rationale behind the preparation of departmental accounts (5mks)
b. Explain the required information in computation of insurance claims for loss of stock. (5mks)
c. Explain the rule in Garner vs Murray in partnership dissolution (5mks)