MUEO

MOI UNIVERSITY

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

UNIVERSITY EXAMINATIONS

2013/2014 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER I/II EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:- BBM 209

COURSE TITLE:- FINANCIAL ACCOUNTING II

DATE:- 24TH FEBRUARY, 2014 TIME:- 2.00P.M. - 5.00 P.M.

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

THIS PAPER CONSISTS OF (4) PRINTED PAGES PLEASE TURN OVER

BBM 209: FINANCIAL ACCOUNTING II
INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

QUESTION ONE

Eldoret Ltd manufactures electrical equipment. The following trial balance as at 31 March 2013 has been extracted from the books of the company:

	000	000
Ordinary shares of 50 cent each		400,000
10% Redeemable Preference shares of 1sh each		200,000
Retained profits as at 1 April 2012		42,475
Office block (Land 40,000,000)	170,000	
Plant and machinery	730,000	
Office equipment	110,000	
Motor vehicles	200,000	
Provision for depreciation – Plant and Machinery		224,500
- Office equipment		24,500
- Motor vehicles		80,000
Accounts receivables/Payables	500,000	356,226
Provision for doubtful debts		1,000
Manufacturing wages	501,400	
Inventory as at 1 April 2012 – raw materials	70,000	
- Work in progress	126,000	
- Finished goods	250,000	
Transport expenses	85,013	
Returns inwards	15,106	
Purchases of raw materials	518,600	
Sales		2,600,147
Bank balance		60,020
Directors salaries	60,114	
Maintenance of plant	30,102	
Rent	40,063	
Advertising	190,048	
Rates	50,171	
Insurance	20,116	
Office salaries	166,013	
Light and heat	46,027	
Factory power	30,014	
Bank interest	7,070	
Interim dividends on preference shares	10,000	
General administration expenses	63,011	
	3,988,868	3,988,868

Additional information

(1) Depreciation is to be provided as follows:

Plant and machinery	15% on cost. (Production expense)
Office equipment	10% on cost (administration expense)
Motor vehicles	25% on WDV (distribution cost)

New office blocks 2% on cost (Administration expense).

(2) Prepayment of rates at 31 March 2013 was 3,140,000.
(3) An insurance premium for public liability cover amounting to 3,360,000 was paid for the year to 30 June 2013
(4) The amount owing for light and heat is 1,214,000 and rent is 2,321,000 as at 31 March 2013.
(5) Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and office expenses.
(6) The provision for doubtful debts is to be maintained at 1% of the accounts receivables.
(7) The production director acts as a factory manager, his salary is 20,000,000.Office salaries include amounts paid to salesmen of 64,237,000.
(8) The corporation tax of 100,000.000 is to be provided,
(9) During the year 1,500,000 electrical equipment were transferred from the factory to the warehouse. Only 100 equipment were in hand at the end of the year.
(10) Inventory at cost as at 31 March 2013 was as follows:

Raw materials	56,200,000.
Work in progress	47,190,000.
Finished goods	?

Required:
Prepare the published income statement for the year ended 31 March 2013 and a balance sheet as at the same date. (25mks)

QUESTION TWO

KaziNzuri Ltd. set up a business on 1 July 2011 to sell snooker tables of a standard size and quality. The company began with Sh.600,000 in the bank. The tables are purchased for Sh.5,400 each and sold for Sh.7,500 each. A friend of the managing director introduced ART Ltd. a hire purchase company to KaziNzuri Ltd. ART requires a deposit of Sh.2,100 followed by 18 months instalments of Sh.375 each, the first one payable one month after purchase. KaziNzuri Ltd. decided to deal in hire-purchase business on terms and conditions to those ART on deposits and instalments.

During the year ended 30 June 2012, KaziNzuri Ltd. bought a total of 300 tables and sold 210 of them. Hire purchase sales were 12 in April 2011, 20 in May 2011 and 30 in June 2011, but 2 of those sold in April were repossessed in June with the deposit and one installment having been paid. One of the repossessed tables was damaged and had to be repaired for Sh.1,800 while the other one was partly damaged and could be treated as new stock..
At the year ended 30 June 2012, the following trial balance was extracted:

	Sh.	Sh.
Capital		600,000
Purchases	1,620,000	
Sales		2,133,000
Debtors	470,250	
Creditors		43,200
Expenses	135,000	

Drawings	480,000	
Bank balances	70,950	
	2,776,200	2,776,200

Required:

(a) Trading, profit and loss account for the year ended 30 June 2012. (6 marks)

(b) (i) Hire purchase debtors account. (2 marks)

(ii) Repossessions account. (2 marks)

(c) Balance sheet as at 30 June 2012. (5 marks)

(Total: 15mks)

QUESTION THREE

N, K and D have carried on partnership for several years, sharing profits and losses equally after allowing for annual salaries as follows:

	Sh.
N	1,500,000
K	900,000
D	900,000

They decided to convert the partnership into limited company; Kedenko Ltd.as at 30 November 2011, the following terms:

1. Goodwill to be valued at Sh.13,500,000
2. Other assets to be valued as follows:

	Sh.
Freehold property	27,000,000
Furniture and fittings	2,400,000
Motor Vehicles	6,000,000

3. Each partner is becoming director of the company at the same salary as that previously allowed in the partnership.
4 K's loan is to be converted into share capital at par.
5. Shares are to be issued to each partner at par in respect of the amounts of their equity holdings at 30 November 20011.
6. The financial year of partnership ends on 30 May .No action has been taken to carry out the terms of conversion of partnership into the limited company in the books of accounts. On 31 May 2012, the trial balance showed the following position:

	Sh '000'	Sh '000'
Capital accounts at 1 June 2011		
N		18,000
K		9,000
D		6,000
Stock -31 May 2012	14,400	
Cost of sales	36,000	
Sales		60,000
Administrative expenses	6,000	
Selling expenses	3,000	
Accounting &Audit expense	1,200	
Incorporation expenses	600	
Drawings:		
N	1,500	

K	900	
D	900	
Freehold property at cost	25,800	
Furniture and fittings at cost	6,000	
Accumulated depreciation		3,600
Debtors and Creditors	9,000	7,200
Prepayments and Accruals	600	300
Loan from K (10% interest per annum)		9,000
Motor Vehicles at cost	12,000	
Accumulated depreciation		3,600
Bank balance		1,200
	117,900	117,900

Additional information;

i. The sales during the second half of the year were 60% of the total sales though the gross profit percentage remained the same throughout the year.

ii. The selling expenses were proportional to the sales for each period. All the expenses were incurred evenly throughout the year.

iii. Salary drawings were made evenly. Drawing made after incorporation were to be treated as director's salaries.

iv. There were no purchases or sales of non-current assets during the year .Depreciation is to be provided on cost as follows;

Furniture and fittings	10% per annum
Motor vehicles	20% per annum

v. No dividends are paid or proposed but it is decided to write off the incorporation expenses and also Sh.3,500,000 of the goodwill.

Required

a. Trading and profit and loss account for Kedenko Ltd. for the six months ended 31 May 2012 (7mks)

b. Calculation showing the value of shares to be issued to each partner. (3mks)

c. Balance sheet as at 31 May 2012. (5mks)

QUESTION FOUR

Nguo Fashion Ltd. has been operating a large retail shop in Nairobi. On 1 July 2010, the directors opened new shops in Eldoret and Kisumu.

All purchases were done in Nairobi branch and goods sent to other branches at a uniform mark-up of $33^1/_3\%$ on their cost. After deducting petty cash expenses, the branches banked all the collections dairy. The head office paid for other expenses but allowed each branch to keep a cash float of Sh. 100,000.

The records maintained by the office (Nairobi branch), did not contain all transactions relating to the other branches. The accountant at head office was however able to obtain the following details for the year ended 30 June 2011:

Head office books

	Eldoret branch Sh. '000'	Kisumubranch Sh. '000'
Fixtures and fittings (cost)	3,500	4,200
Cash float with branches	100	100
Goods sent to branches (cost)	6,200	7,300
Goods returned from branches (cost)	27,000	36,000
Cash received from branches	300	150
	37,100	**47,750**

Branches books

	Eldoret branch Sh '000'	Kisumubranch Sh '000'
Sales	32,350	43,340
Cash floats at June 2011	100	100
Sundry expenses	400	340
Banking – head office account	31,450	43,000
Goods returned to head office (selling price)	400	200
	700	
Goods sent to Kisumu branch		200
Goods sent to Eldoret branch	3,300	4,740
Inventory at 30 June 2011 (selling price)	20	15
Damaged inventory – scrapped (selling price)		

Additional information:

1. Eldoret branch purchased goods locally for Sh. 500,000 and sold them at a margin of $33^1/_3$%. At 30 June 2011 the closing inventory, at selling price, included Sh. 60, 000 in respect of these goods.
2. During the year, the branches organized a "sales week" when all prices were reduced by 10%. Sales realized during the week were; Eldoret Sh. 900,000 and
3. Kisumu Sh. 1,080,000.
4. The head office charged each branch Sh. 500,000 in respect of the services rendered.

   Depreciation is to be provided at 10% per annum on fixtures and fittings in each branch.

Required:

a. Branches stock accounts as at 30 June 2011. (3mks)
b. Branches mark – up account as at 30 June 2011 (5mks)
c. Goods sent to branches accounts as at 30 June 2011. (3mks)
d. Branches profit and loss accounts for the year ended 30 June 2011. (4mks)

QUESTION FIVE

a. Explain the reasons that may render a partnership firm be dissolved (5mks)

b. What are the advantages that may lead to partners in a partnership desire to convert the business into a limited company and the procedure for doing so (10mks)

QUESTION SIX

a) Explain what an insurance contract is. (2mks)

b) How can loss of stock claim be ascertained for payment by an insurance company? (4mks)

c) On 1 July 2012 a fire took place in the godown of Moto Moto Ltd, which destroyed all the stocks. Calculate the amount of insurance claim for loss of stock from the following details:

	Sh
Sales in 2010	200,000
Gross profit in 2010	60,000
Sales in 2011	300,000
Gross profit in 2011	60,000
Stock on 1.1.2012	270,000
Purchases from 1.1. 12 –30.6. 12	400,000
Sales from 1.1.2012 – 30.6. 12	720,000

The following are also to be taken into consideration:

1) Stock at 31 Dec 2010 had been undervalued by 10%
2) A stock-take conducted in March 2012 had revealed that stock costing Sh80,000 were lying in damaged condition; ½ of these were sold at cost, and the balance was expected to be sold at 40% of cost. All these items were included in the stock as at 1 Jan 20129. (9mks)