



MUEO

MOI UNIVERSITY

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

**UNIVERSITY EXAMINATIONS
2014/2015 ACADEMIC YEAR**

SECOND YEAR END OF SEMESTER EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 223

COURSE TITLE:- FINANCIAL ACCOUNTING II

DATE:- 1ST DECEMBER, 2015

TIME:-9.00A.M. – 12.00NOON.

INSTRUCTION TO CANDIDATES

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BBM 223: FINANCIAL ACCOUNTING II

MAIN EXAMINATION

Instruction: Answer Question *ONE* and any other *TWO*

QUESTION ONE

Araka Ltd., a company dealing in retail products, extracted from the following trial balance as at 30 September 2005:

	DR	CR
	<u>Sh. '000'</u>	<u>Sh. '000'</u>
Freehold land: Cost	121,500	
Buildings: Cost	431,000	
Accumulate depreciation		68,960
Plant and machinery: Cost	64,172	
Accumulated depreciation		16,074
Sales		1,312,567
Purchases	839,004	
Cash in hand	1,268	
Accounts payables		21,172
Electricity	6,917	
Ordinary share capital		50,000
Cash at bank	1,210	
Accounts receivables	61,074	
Suspense account	4,300	
Inventory as at 1 October 2004	41,912	
Retained profits		296,057
Motor vehicle expenses	4,174	
Sundry expenses	2,002	
Salaries and wages	121,600	
Directors remuneration	48,999	
Bank charges	1,621	
Motor vehicles: Cost	28,900	
Accumulated depreciation		<u>14,712</u>
	<u>1,779,542</u>	<u>1,779,542</u>

Additional information:

- i. Provision for doubtful debts should be made at 2% of the debtors ledger balances after writing of bad debts amounting to Sh 1,370,000.
- ii. The suspense account was analyzed as follows:

	Sh. '000'	Sh. '000'
Bad debts written off during the year		512
Motor vehicle purchased on 1 April 2005		<u>7,400</u>

- | | |
|---|----------------|
| | 7,912 |
| • Less: motor vehicle sold on 1 April 2005 | 3,000 |
| Amounts received in respect of a bad debt recovered | 612 |
| | <u>(3,612)</u> |
| | <u>4,300</u> |
- iii. The motor vehicle sold during the year had been purchased on 1 February 2002 for Sh 6,500,000.
- iv. Bank statement as at 30 September 2005 showed bank charges of Sh 533,000. This had not been recorded in the cash book.
- v. Accounts receivables did not agree with the list of balances in personal accounts. You ascertain that some invoices for October 2005 had been posted in the personal accounts as at September 2005. The list of balances was overstated by Sh 4,300,000.
- vi. Estimated corporation tax for the year ended 30 September 2005 was Sh131, 700, 000.
- vii. The value of inventory as at 30 September 2005 was amounted to Sh 62,047,000.
- viii. The directors proposed to pay ordinary dividend of 10%. 9. The following petty cash expenditure had not been recorded:

	Sh. '000'
Motor vehicle expenses	412
Sundry expenses	91
Casual workers' wages	36

- ix. Depreciation is provided at the following rates: Buildings – 2% per annum on cost Plant and machinery – 20% per annum on reducing balance basis. Motor vehicle – 25% per annum on cost Full year's depreciation is provided in the year of purchase and none in the year of disposal.

Required:

- i) Statement of comprehensive income for the year ended 30 September 2005. (15 marks)
- ii) Statement of financial position as at 30 September 2005 (10 marks)
- (Total 25 marks)**

QUESTION TWO

XYZ Ltd purchased a machine on Hire Purchase whose cash price was Kshs 560,000 and payments were made as follows: Deposit shs 150,000 three installments of Shs 150,000 each.

Required:

The necessary a/c's on the books of the buyer using straight line method to apportion interest and the asset is depreciated at rate of 20% on straight line method

The a/c's are as follows

- i. Machinery a/c (5 marks)

- ii. Hire purchase Liability a/c (5 marks)
 - iii. Hire purchase interest suspense a/c (5 marks)
- (Total 15 marks)**

QUESTION THREE

- a) Discuss the differences between a partnership and a limited company listing the challenges a partnership has which are solved by a limited company (9 Marks)
 - b) Write brief notes on the following:
 - i. Authorized share capital (2 Marks)
 - ii. Issued share capital (2 Marks)
 - iii. Calls in arrears (2 Marks)
- (Total 15 marks)**

QUESTION FOUR

- a) Outline any four circumstances that can lead to dissolution of a partnership. (5 marks)
- b) J, T & S have been in partnership business sharing profits and losses in the ratio 2:2:1 prior to dissolution

JTS- Partnership
BALANCE SHEET

<u>Non-Current Assets</u>	Kshs "000"
Freehold property	40,000
Equipment	10,000
<u>Current assets</u>	
Stock	8,000
Debtors	4,500
Bank	<u>2,100</u>
	<u>64,600</u>
Financed by	
Capitals A/C's	
J	45,700
T	13,700
S	<u>5,200</u>
	<u>64,600</u>

Additional information:

- i. The assets were disposed separately as follows

	Kshs "000"
Freehold property	28,900
Equipment	5,300
Stock	2,400
- ii. Debtors paid their dues in full and dissolution expenses amounted to 700,000.

Required

Using maximum possible loss method, extract a distribution schedule assuming the application of Garner Vs Murray Rule.

(10 marks)**(Total 15 marks)****QUESTION FIVE**

- a) Discuss two main types of branches and accounting treatment for each (5 marks)
- b) Rohe Enterprises, 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.

(10 marks)**(Total 15 marks)**