

**KABARAK**



**UNIVERSITY**

**UNIVERSITY EXAMINATION**

**2009/2010 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ACCT 120**

**COURSE TITLE: FOUNDATION OF  
ACCOUNTING II**

**STREAM: Y1S2**

**DAY: THURSDAY**

**TIME: 2:00 – 4:00 P.M.**

**DATE: 08/04/2010**

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**INSTRUCTIONS:**

- (i) This paper contains FOUR questions
- (ii) Answer ALL the questions
- (iii) All the questions carry EQUAL marks
- (iv) Marks are collocated at the end of each question
- (v) All workings Leading to Answers MUST be clearly shown
- (vi) Any irregularity will be punished severely.

**PLEASE TURNOVER**

## QUESTION 1

- a) Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statement and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view. They are applicable to financial statements of a reporting entity that are intended to give a true and fair view of its states of affairs at the balance sheet date and of its profit of loss (or income and expenditure) for the financial period ending on that date. Accounting standard need not be applied to immaterial items.

Required:

State any **THREE** reasons why standards are used in the preparation of financial statements. (3 marks)

- b) Outline the information needs of the following groups users of financial statements:  
management  
Employees  
Shareholders
- c) “Qualitative characteristics are the attributes that make information provided in financial statement useful to users”. Briefly explain the four main qualitative characteristics of financial statements with references to shareholders of a company. (8 marks)
- d) The IASB’S Framework for the PREPARATION AND presentation of financial Statements (the framework) identifies some of the underlying assumptions governing financial statements. Briefly explain the following Accounting principles:
- (i) Economics Entity Assumption
  - (ii) Monetary Unit Assumption
  - (iii) Cost principles
  - (iv) Going concern principle. (8 marks)

## QUESTION 2

MAKONGENI

TRIAL BALANCE AS AT 31<sup>ST</sup> JULY 2009

	DEBIT(\$)	CREDIT(\$)
Sales		186,000
Purchases	143,000	
Stocks (1 st Augst 2008)	32,000	
Sales returns	1,800	
Purchase return		400,000
Carriage inwards	5,000	
Discount received		3,500
Loan interest	1,800	
Wages	15,400	
Heat and light	2,500	
General expenses	4,200	
Premises	65,000	
Fixtures and equipment	29,000	
Loan from ABC Ltd		25,000
Creditors		23,000
Debtors	28,000	
Bank	25,500	
Cash	100	
Capital		120,000
drawings	8,200	
	<b>361,500</b>	<b>361,500</b>

Additional information

- (i) Stock on 31<sup>st</sup> July 2009 was valued at \$ 26,000
- (ii) Makongeni had taken goods costing \$200 for her own personal use during the year. No record of this has been made in the accounting records.

**Required:**

Prepare the trading and profit and loss account for the year ended 31<sup>st</sup> July 2009.

### QUESTION 3

The balance in the X Company's books as at 31<sup>st</sup> December 2009 include the following:

		\$
Sales		240,000
Raw-Material	stock at 1 <sup>st</sup> January 2009	13,000
	Purchases	94,000
Carriage inwards		4,400
Finished goods -	Stock at 1 <sup>st</sup> January 2009	11,000
Factory wages -	Direct	36,000
	Indirect	15,000
Factory Overheads-	Fuel and power	20,000
	Rent	9,000
Office overheads-	Salaries	16,000
	General expenses	6,600

You are given the following information:

- 1) Stocks at 31<sup>st</sup> December 2009  
Raw –material 15,000  
Finished goods 16,000
- 2) There was no work in progress at the beginning or end of the year.
- 3) Depreciation for the year ended 31<sup>st</sup> December 2009 is to charged as follows:

	\$
On factory machinery	18,000
On factory equipment	2,000

#### Required:

Prepare the x company's manufacturing trading profit and loss account for the year ended 31<sup>st</sup> December 2009. [ Total: 25 marks]

### QUESTION 4

- a) Assume the following data are extracted from the books of Caro Company limited:

	2004	2005	2006	2007	2008
Shs	'000'	'000'	'000'	'000'	'000'
Sales	1,000	1,050	1,120	1,150	1,220
Net income	200	206	218	222	232

#### Required:

Using 2004 as the base year, compute the trend percentages for the subsequent years. (3 marks)

b) The summarized accounts of Baby Angel Ltd. for the years ended 31<sup>st</sup> July 2008 and 2009 are as follows:

	<u>2009</u>	<u>2008</u>
<u>Balance Sheet:</u>	<u>Sh. '000'</u>	<u>Sh. '000'</u>
Investments at cost	16,000	10,400
Land	12,600	8,800
Plant and machinery at cost	2,200	2,000
Buildings, at cost	18,000	10,000
Stock	13,000	11,000
Debtors	10,000	8,000
Bank	-	200
	<u>71,800</u>	<u>50,400</u>
Ordinary shares Sh.20 each	10,000	8,000
Share premium	2,800	2,600
Revaluation reserve	4,000	-
Profit and Loss Account	5,000	5,000
10% Debentures	30,000	20,000
Acc. Depr-Plant and machinery	1,000	800
Building	2,200	2,000
Creditors	12,000	8,000
Proposed dividend	4,000	4,000
Bank	800	-
	<u>71,800</u>	<u>50,400</u>
<u>Profit and Loss Account:</u>		
Sales	40,000	40,000
Cost of sales	24,000	20,000
	<u>16,000</u>	<u>20,000</u>
Expenses	12,000	12,000
	<u>4,000</u>	<u>8,000</u>
Dividends	4,000	4,000
	-	<u>4,000</u>
Balance brought forward	5,000	1,000
Balance carried forward	<u>5,000</u>	<u>5,000</u>

**Required:**

Prepare a common size balance sheet for the company for 2009 and 2008. [Total: 25 marks]