KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS
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: 4:00 – 6:00 P.M.

DATE: 08/04/2010

INSTRUCTIONS:

1. Answer all questions
2. Begin a new question on a new page
3. Be clear and neat

PLEASE TURNOVER

QUESTION ONE

a) Discuss the main advantages and disadvantages of partnership. (4 marks)

b) Tom, Dick and Harry entered into a partnership on 1st January 2009 and agreed to contribute shs. 220,000, shs. 180,000 and shs 200,000 respectively as capital for the business.

An investigation into their partnership deed revealed the following information:

- Interest on capital is at 7.5% interest p.a. while interest on drawings is at 12% p.a.
- Tom is a limited partner while the rest are general partners. The general partners shall take part in the management of the business.
- Salary p.a. for those involved in the management of the business is fixed at 10% of the capital contributed into the business
- The profits and losses to be shared proportionately.

During the year ended 31st December 2009, the partnership earned a net profit of shs. 720,000 while drawings were shs. 60,000 and shs. 75,000 for Dick and Harry respectively.

Required:

Prepare the profit and loss appropriation accounts and the partner's fluctuating capital accounts for the year ended 31st December 2009. (11 marks)

QUESTION TWO

On 1st April 2005, New generation company acquired a New machine A with an estimated useful life of 5 years. The cost of the equipment was shs. 550,000 with a residual value of shs. 50,000. On October 1st 2006, it acquired another machine B at a cost of shs. 600,000. The useful life of the machine was estimated to be 5 years and the residual value shs. 90,000.

At the beginning of 2008, the company decided to buy a machine C with a useful life of 5 years because the directors had proposed to dispose machine A during the year. Machine C was bought for shs.1,000,000 and had an estimated residual value of shs. 120,000. On 1st July 2008, machine A was sold for shs. 305,000.

The company uses straight line method in providing for depreciation and its policy is to depreciate assets in the year of purchase and not in the year of disposal.

The financial year end of the company is to 31st December.

Required:

For the years ended 2005 - 2008,

a) Show the Machinery account. (5 marks)

b) Provision for depreciation account. (4 marks)

c) Machinery disposals account. (3 marks)

d) Show an extract from the profit and loss account for the year ended 31st December 2008 clearly indicating the net profit given that gross profit for the year was shs. 82,700 and that the following expenses were incurred:

- Salaries and wages shs. 12,190
- General expenses (excluding depreciation) shs. 4,800. (3 marks)

QUESTION THREE

The following trial balance has been extracted from the books of Maskini Jeuri (MJ) Ltd as at 30th June 2009. From it, prepare the trading and profit and loss account and a balance sheet for the year ended 30th June 2009

(20 marks)

	Shs.	Shs.
Share Capital: authorized and issued		2,000,000
Stock as at 30th June 2008	1,029,940	
Debtors and Creditors	2,272,190	548,180
8% Debentures		400,000
Non - Current Assets replacement reserve		300,000
General reserve		150,000
Profit and loss account as at 30th June 2008		164,110
Debenture interest	16,000	
Equipment as cost	2,250,000	
Motor vehicles at cost	572,000	
Bank	49,730	
Cash	620	
Purchases and Sales	4,192,110	8,804,260
Returns inwards	184,000	
Carriage inwards	14,520	
Wages and Salaries	1,232,890	
Rent, business rates and insurance	162,400	
Discounts allowed	34,150	
Director's remuneration	824,000	
Provision for depreciation at 30th June 2008:		
Equipment		326,000
Motor Vehicles		182,000
Share premium account		60,000
Good will	100,000	
	12,934,550	**12,934,550**

Additional information

(i) Stock as at 30th June 2009 was shs. 1,113,170

(ii) The share capital consisted of 300,000 ordinary shares of shs.5 each and 50,000 12 percent preference shares of shs.10 each. The dividend on the preference shares was proposed to be paid as well as dividend of 18% on the ordinary shares.

(iii) Accrued: rent shs.8,020, Director's remuneration shs. 10,000

(iv) Debenture interest ½ year's interest owing

(v) Depreciation on cost: equipment 20%, motor vehicles 25%

(vi) Transfers to reserves: General reserve shs. 50,000; Non - Current Assets replacement reserve shs.100,000

(vii) Provide for corporation tax shs.50,000

QUESTION FOUR

The following trial balance has been extracted from the books of Kaplong traders as at 31st December 2009:

	Dr Shs.	Cr Shs.
Delivery Van expenses	3,520	
Lighting and Heating –Factory	14,440	
- Office	2,980	
Manufacturing wages	144,200	
General expenses –Factory	16,200	
- Office	3,880	
Sales reps: Commission	23,376	
Purchase of raw materials	114,420	
Rent – Factory	12,200	
- Office	5,400	
Machinery (cost shs. 80,000)	57,200	
Office equipment(cost shs.18,000)	16,400	
Office salaries	35,480	
Debtors	68,400	
Creditors		18,800
Bank	32,284	
Sales		389,600
Van (cost shs.13,600)	12,400	
Stocks at 31st December 2008		
Raw materials	26,520	
Finished goods	82,600	
Drawings	48,400	
Capital		311,900
	720,300	720,300

Required

Prepare the manufacturing, trading and profit and loss accounts for the year ended 31st December 2009 and a balance sheet as at that date. Give effect to the following adjustments:

(i) Stocks at 31st December 2009; Raw materials shs.29,020; Finished goods shs. 88,980

(ii) Depreciate machinery shs.6,000; office equipment shs. 1,200; van shs. 2,400

(iii) Manufacturing wages due but unpaid at 31st December 2009 shs. 1,100; office rent prepaid shs. 280.

(Total 20 marks)