

KENYA METHODIST UNIVERSITY

DLM ASSIGNMENT

ACCT 330

INTERMEDIATE ACCOUNTING I

ANSWER ALL QUESTIONS

Question One

Two accounting concepts or conventions could clash or there could be inconsistency between them.

Give two examples of such situations and explain how the inconsistency should be resolved.
(10 Marks)

Question Two

- (a) List the main advantages of ratio analysis.
- (b) Pesa Ltd. is an expanding company and the following accounts relate to its operations for the years 2009 and 2010:

Profit statement for the year ended 30 June

	2009	2010
	Sh.	Sh.
Sales	3,000,000	4,800,000
Less: cost of goods sold	<u>1,650,000</u>	<u>2,700,000</u>
Gross profit	1,150,000	2,100,000
Less: trading expenses	<u>675,000</u>	<u>825,000</u>
Trading profit	675,000	1,275,000
Less: Debenture interest	<u>37,500</u>	<u>37,500</u>
Net profit before taxation	637,500	1,275,000
Less: Corporation tax	<u>240,000</u>	<u>480,000</u>
Net profit after taxation	397,500	757,500
Less: Ordinary share dividend	<u>187,500</u>	<u>262,500</u>
Undistributed profit for the year	210,000	495,000

Balance sheet as at 30 June

	2009		2010	
	Sh.	Sh.	Sh.	Sh.
Fixed assets at cost	1,500,000		2,100,000	
Less: Depreciation	<u>300,000</u>	1,200,000	<u>375,000</u>	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	<u>120,000</u>		<u>1,350,000</u>	

Less: current liabilities	1,095,000	
Creditors	217,500	300,000
Taxation	240,000	480,000
Proposed dividend	187,500	262,500
Bank overdraft	_____	<u>97,500</u>
	<u>(645,000)</u>	<u>(1,140,000)</u>
	<u>1,650,000</u>	<u>1,935,000</u>
Financed by:		
Ordinary share capital (Authorised and issued)	750,000	750,000
Undistributed profits	525,000	1,020,000
10% debentures	<u>375,000</u>	<u>165,000</u>
	<u>1,650,000</u>	<u>1,935,000</u>

Required:

- (i) Compute six accounting ratios for both 2009 and 2010 you feel would be of particular value in assessing the Profitability and Liquidity of Pesa Ltd.
(6 marks)
- (ii) Comment on the current position of the company with the aid of the accounting ratios computed in (i) above and any other information that you consider to be relevant.
(2 marks)

The following balances were extracted from the books of Jared Odhiambo, a sole trader as at 31 August 2009.

	Dr Sh. ('000')	Cr (Sh. '000')
Plant and machinery at cost		11,350
Provision for depreciation on plant and machinery		4,150
Motor vehicles	13,290	
Provision for depreciation on motor vehicle	2,790	
Goodwill	5,000	
Quoted investments	6,470	
Freehold premises at cost	32,000	
Mortgage on premises	10,000	
Interest paid /received	1,000	460
Inventory		4,670
Bank and cash		2,850
Capital		60,000
Drawings		5,600
Purchases and sales	34,260	58,640
Return inwards/outwards	3,260	2,140
Carriage inwards	730	
Carriage outwards	420	

Discount allowed/received	1,480	1970
Wages	7,180	
Rent and rates	4,300	
Allowance for bad and doubtful debts	530	
Trade receivable/payable	8,070	4,340
Electricity		2,640
Stationery		450

Additional information;

1. Inventory as at 31 August 2009 was valued as Sh.3,690,000
2. Allowance for bad and doubtful debt is to be adjusted to 10% of debtors
3. Bad debt of ksh.370,000 have not been posted to the ledgers.
4. Goods which had cost Sh.300,000 had erroneously been invoiced to a customer for Sh.400,000 and had been accounted for as sales
5. Electricity accrued as at 31st August 2009 was Sh.130,000 and prepaid rates amounted to Sh.210000.
6. Stock of stationery as at 31 August was Sh.230,000.
7. Depreciation is to be provided on pro rata basis as follows

Asset	Rate per annum
Plant and machinery	25% on reducing balance method
Motor vehicles	20% on reducing balance method
8. A motor vehicle was sold on credit on 1 December 2008 for Sh.458,000. the motor vehicle had been bought on 1 June 2007 for Sh.1,000,000. the sale had not been recorded in the ledger.
9. During the year, Jared Odhiambo took goods worth Sh.350,000 from the business for his own use.

Required:

- a) Extract a trial balance before the adjustments for Jared Odhiambo as at 31 August 2009 (2 Marks)
- b) Income statement for the year ended 31 August 2009 (5 Marks)
- c) Statement of financial position as at 31 August 2009 (3 marks)

Lecturer: Oscar Ohaya

Tel: 0722 858406 Email: oscarohaya@yahoo.com