

**CHUKA**



**UNIVERSITY**

**COLLEGE**

**UNIVERSITY EXAMINATIONS**

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF  
BACHELOR OF COMMERCE**

**BCOM 111: PRINCIPLES OF ACCOUNTING II**

**STREAMS: BCOM YIS2**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 13/12/2012**

**2.30 P.M– 4.30 P.M**

**INSTRUCTIONS:**

**Attempt question one and any other two questions.**

**Question One**

(a) The following trial balance was extracted from the books of Silver Limited as at 31 Oct 2011

	<b>Sh.“000”</b>	<b>Sh.“000”</b>
Ordinary share capital (Sh.10 each par value)		15,000
Share premium		800
10% debenture		1,000
General reserve		1,000
Revenue reserve (1 November 2010)		1,620
8% redeemable preference shares		8,000
Goodwill	2,500	
Inventory (1 November 2010)	2,790	
Purchases and sales	22,180	37,970
Discount allowed and discount received	340	502
Salaries	2,850	
Rent and Insurance	1,702	
Office expenses	1,472	
Director’s remuneration	500	
Interim dividend paid: Preference	320	
Ordinary	1,500	
Financial assets (at Fair value)	8,000	
Trade receivables and trade payables	2,400	2,010
Allowance for doubtful debts		280
Bank balance	1,278	
Building	17,000	

Furniture and fittings	1,500	
Motor vehicles	3,100	
Provision for depreciation: Furniture and fittings		300
Motor vehicles		450
Investment income		550
Debenture interest	<u>50</u>	<u>50</u>
	<u>69,482</u>	<u>69,482</u>
	=====	=====

**Additional information:**

- The value for the inventory as at 31<sup>st</sup> October 2011 was Sh.3,650,000.
- Depreciation is to be provided as follows:

Asset	Rate per annum
Furniture and fittings	12.5% on reducing balance
Motor vehicles	10% on cost
Ignore depreciation on buildings.	
- Allowance for doubtful debts is to be adjusted to Sh.240,000.
- Bad debts amounting to Sh.40,000 are to be written-off.
- Insurance amounting to Sh.480,000 had been paid to cater for a period of six months up to January 2012.
- A provision for accrued debenture interest of sh.50,000 and a preference dividend of Sh.320,000 are to be made.
- Corporation tax for the year is estimated to be Sh.1,614,000.
- The directors have proposed to pay a final dividend of 10% of ordinary share capital and to transfer Sh.500,000 to the general reserve.

**Required:**

- (i) Statement of Comprehensive income for the year ended 31 October 2011. [10 marks]
- (ii) Statement of financial position as at 31 October 2011. [10 marks]
- Distinguish between the following:
  - Authorized capital and issue share capital. [2 marks]
  - A sleeping partner and a limited partner. [2 marks]
- Briefly explain how a company can utilize its share premium. [2 marks]

- (d) Highlight the reasons for preparation of a Bank reconciliation statement of a business enterprise. [4 marks]

### Question Two

The following is a receipts and payment amount prepared by Karibu sports club for the year ended 31 December 2011:

<b>Receipts</b>	<b>Sh. "000"</b>	<b>Payments</b>	<b>Sh. "000"</b>
Balance (1 January 2011)		Bar purchases	670
Current account	800	Electricity and water	90
Deposit account	1,000	Sports equipment	600
Subscriptions for the year 2010	200	Bar attendant wages	100
Subscriptions for the year 2011	2,540	Bar glasses	50
Subscriptions for the year 2012	460	Ground's man wages	400
Bar takings	900	Secretary's Honoraria	1,600
Dinner dance tickets	600	Coaching fees	500
Interest on deposit account	120	Ground maintenance and repairs	180
Sale of sports equipment	200	Travelling expense	420
		Dinner dance expenses	300
		Balance (31 December 2011)	
		Current account	910
		Deposit account	1,000
	6,820		6,820
	6,820		6,820

The balance of assets and liabilities of Karibu sports as at 31 December 2010 and 2011 were as follows:

	<b>2010</b>	<b>2011</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Club house at cost	3,000	3,000
Sports equipment at cost	800	?
Furniture and fittings at cost	600	600
Bar stock	200	250
Subscriptions in arrears	240	280
Subscripts in advance	180	460
Electricity and water outstanding	30	40
Bar creditors	90	120
Accumulated depreciation		
Sports equipment	480	?
Furniture and fittings	180	?

**Additional information:**

1. It is the policy of the club to write-off subscriptions in-arrears after 12 months.
2. Sports equipment sold during the year had an initial cost of Sh.400,000 and net book value of Sh.160,000.
3. Provision for depreciation is to be made on the cost of assets in existence at the end of the financial year as follows:

Sports equipment at 20% per annum  
Furniture and fittings at 10% per annum

4. Bar takings worth Sh.100,000 on 31 December 2011 were in the cash till. These bar takings were yet to be recorded.
5. Bar glasses are treated as revenue expenditure.

**Required:**

- (a) Bar trading and income statement for the year ended 31 December 2011. [4 marks]
- (b) Income and expenditure account for the year ended 31 December 2011. [10 marks]
- (c) Statement of financial position as at 31 December 2011. [6 marks]

**Question Three**

Jamii Limited has an authorized Share capital of 500,000 ordinary shares of Sh.10 each. The statement of financial position as at 30 September 2011 and 30 September 2012 were as follows:

	<b>2011</b> <b>Sh."000"</b>	<b>2012</b> <b>Sh."000"</b>
Assets		
Non-current assets:		
Property, plant and equipment	7,300	11,000
Investment at cost	<u>1,000</u>	<u>500</u>
	8,300	11500
	=====	=====
Current assets:		
Inventory	800	1,100
Receivables	1,100	1,800
Cash at bank	<u>200</u>	<u>300</u>
	<u>2,100</u>	<u>3,200</u>
Total assets	10,400	14,700
	=====	=====
Equity and liabilities		
Equity and reserves:		

Issued ordinary share capital of Sh.10 each	3,000	3,800
Share premium	2,000	3,000
Revaluation reserve	1,000	2,000
Retained earnings	<u>2,000</u>	<u>1,900</u>
	8,000	10,700
	=====	=====
Non-current liability:		
10% loan	1,000	1,500
Current liabilities:		
Trade payables	700	800
Bank overdraft	400	1,300
Proposed dividends	<u>300</u>	<u>400</u>
	<u>1,400</u>	<u>2,500</u>
Total Equity and liabilities	10,400	14,700
	=====	=====

**Additional information for the year ended 30 September 2012:**

1. Equipment with a net book value of Sh.800,000 was sold for Sh.600,000 while investments which cost Sh.500,000 were sold for Sh.400,000.
2. Freehold land and buildings were revalued upwards by Sh.1,000,000.
3. The depreciation charge for the property, plant and equipment was Sh.1,000,000.
4. The directors of the company proposed to pay dividends of Sh.400,000 to the ordinary shareholders. The dividends were declared before the year end.

**Required:**

- (a) Cash flow statement for the year ended 30 September 2012. [16 marks]
- (b) Comment briefly on the liquidity position of Jamii Limited Company. [4 marks]

**Question Four:**

- (a) Distinguish between prime costs and indirect costs in the context of manufacturing accounts. [2 marks]
- (b) The following balances were extracted from the books of account of KamauMwangi, a manufacturer as at 31<sup>st</sup> December 2011.

**Sh.**

Drawings	480,000
Trade payables	50,000
Trade receivables	200,000
Fuel and motor vehicle repairs	10,000
Wages for drivers of delivery van	70,000
Bank overdraft	100,000
Bank charges	12,500
Loan interest	30,000
Postage and telephones	53,500
Hire of delivery vans	20,000
Capital	500,000
Sales	2,080,000
Loan	300,000
Raw material purchases	400,000
Raw material Inventory (1 January 2011)	120,000
Production wages	300,000
Production equipment – at cost	700,000
Provision for Depreciation (1 Jan 2011)	140,000
Rent	64,000
Electricity	120,000
Administrative expense	75,000
Production overhead expense	175,000
Administrative expenses	150,000
Work-in-progress (1 Jan 2011)	20,000
Finished goods (1 Jan 2011)	115,000
Provision for unrealized profit (1 Jan 2011)	15,000
Hire of office equipment	70,000

**Additional information:**

1. Inventory as at 31 March 2011 were as follows:

	Sh.
Raw materials	140,000 at cost
Work-in-progress	70,000 at cost
Finished goods	138,000 at transfer price

2. Transfer are made from the manufacturing account at cost plus 15%.
3. The production equipment has a useful life of 10 years and a zero scrap value.
4. Rent and electricity is to be apportioned between production and administrative expense in the ratio of 3:1 respectively.

**Required:**

- (a) Manufacturing, trading and income statements for the year ended 31 March 2011. [10 marks]
- (b) Statement of financial position as at 31 March 2011. [8 marks]

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