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**University Examinations 2016/2017**

FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE AND AGRIBUSINESS AND MANAGEMENT

**BFC 3175: FINANCIAL ACCOUNTING II**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Describe what makes incorporated firms different from the un incorporated

Firms (6 marks)

1. The following balances were extracted from the books of Nchuki traders ltd as at 30 September 2010

Sh

Ordinary shares of sh. 20 each fully paid 600,000

8% preference shares sh.20 each fully paid 100,000

Share premium account 80,000

6% loan stock 100,000

Trade creditors 148,000

Trade debtors 330,000

Sales 4,800,000

Purchases 4,220,000

Discounts allowed 5,000

Discounts received 13,000

Freehold buildings:

At cost 500,000

Provision for depreciation 50,000

Fixtures and fittings:

At cost 640,000

Provision for depreciation 256,000

Stock 1st October 2009 420.000

Returns outwards 80,000

Establishment expenses 130,000

Selling and distribution expenses 56,000

Bad debts written off 167,000

Provision for doubtful debts 4,000

Provision for doubtful debts 18,000

Retained profit 1 October 2009 362,000

Goodwill 160,000

Bank overdraft 25,000

The following additional information is available:

1. Depreciation is provided annually on the cost of fixed assets held at the end of the financial year at the following rate:

Freehold buildings 20%

Fixtures and fittings 10%

1. The trade debtors balance includes sh. 10,000 due from Musa who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
2. The provision for doubtful debts as at 30 September 2010 is to be 5% of trade debtors
3. Establishment expenses prepaid at 30 September 2010 amounted to sh. 4,000
4. Administration expenses accrued at 30 September 2010 amounted to sh. 7,000
5. The company paid the interest on the loan stock for the year, ended 30 September 2010 on 30 October 2010
6. Closing stock was valued at sh. 560,000
7. The company’s directors propose that the preference share dividend be paid and a dividend of 10% the ordinary shares he paid.

**Required:**

1. Trading and profit and loss account and appropriation account for the year ended 30 September 2010 of Nchuki Traders Ltd (14 marks)
2. Balance sheet as at 30 September 2010 (10 marks)

**QUESTION TWO (20 MARKS)**

The following trial balance was extracted from the books of literary and philosophical society as at 30 September 2000

Sh. Sh.

Balance at bank current account 724,800

Accumulated fund 1 October 1999 5,771,220

Land and building at cost 3,700,000

Debtors for subscription 62,000

Furniture and fittings 1,874,000

Provision for depreciation of furniture and fittings 284,000

Subscriptions 1,450,800

Subscriptions 920,000

Lecturers’ fees 358,000

Donations 108,000

Camera and projector repairs 17,000

Projectors, cameras and audio equipment 190,400

Depreciation of equipment 54,400

Rates and water 277,000

Lighting and heating 367,200

Rental of rooms 495,000

Wages – caretaker 880,000

Restaurant 1,600,000

Bar staff 800,000

Purchase of food 1,565,800

Stock bar 1 October 1999 473,600

Bar receipts 4,032,000

Bar purchases 2,842,000

Restaurant receipts 3,642,000

Loan 1,600,000

Deposit account –bank 1,000,000

Interest payable and receivable 36,000

Creditors for bar and food 178,400

17,651,800 17,651,800

Additional information:

1. The bar stock was valued at sh. 642,800 as at 30 September 2000.
2. It is expected that of the debtors for subscriptions sh. 43,600 will not be collectable.
3. The interest account is net. The loan is at a concessional rate of 4% while 10% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.
4. An invoice for sh. 43.000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation
5. Depreciation for the year is to be provided as follows:

Furniture and fittings sh. 194.000

Projectors, cameras etc. sh.19.000

Required:

1. Bar and restaurant trading account for the year ended 30 September 2000

(8 marks)

1. An income and expenditure account for the year ended 30 September 2000

(12 marks)

**QUESTION THREE (20 MARKS)**

Kaluwax ltd. manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the book of the company at 30 April 2001:

**Sh. Sh.**

Stocks at 1 May 2000

Raw materials at cost 350,000

Work-in-progress at factory cost 1,800,000

Finished goods (3,500 units) at factory cost 3,500,000

Raw materials purchased 3,950,000

Sales (12,000 units) 18,000,000

Manufacturing wages 3,000,000

Factory rent and rates 1,400,000

Factory light, heat and power 655,000

Plant at cost 6,000,000

Plant depreciation at 1 May 2000 2,800,000

Works manager’s salary 245,000

Plant repairs 400,000

Administrative overheads 1,800,000

Factory lease at cost (20 years duration) 4,000,000

Amortization at 1 May 2000 1,200,000

Share capital 7,500,000

Debtors 3,050,000

Bank balance 1,600,000

Creditors 2,450,000

Carriage inwards 200,000

31,950,000 31,950,000

The following additional information is available:

1. Plant depreciation is to be provided at 10% on the cost of plant owned at the year end
2. Raw materials costing sh. 500,000 were in stock on 30 April 2001
3. Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to sh. 2,300,000
4. There was no wastage or pilferage during the current year

**Required:**

1. Manufacturing trading and profit and loss account for the year ended 30 April 2001.

(12 marks)

1. Briefly explain the meaning of each of the following accounting concepts, giving in each case, an example of the application of each
2. Materiality (4 marks)
3. Substance over form (4 marks)

**QUESTION FOUR (20 MARKS)**

1. State and briefly explain any three distinguishing features between
2. A receipts and payments account and
3. Income and expenditure account (6 marks)
4. The accountant of Mamba sports club has extracted the following information from the books of account for the year ended 31 March 2001:

**Receipts & payments a/c**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts**  Balance brought forward  Subscriptions:  Year 1999/2000  2000/2001  2001/2002  Dinner dance  Beverage sales  Investments income  **Balance sheet as at**  Furniture and fittings(net)  Equipment (net)  Investments at cost  Subscriptions in arrears  Salaries accrued  Stock of beverages  Subscriptions in advance | **Sh.**  288,000  249,000  2,050,000  194,000  723,000  657,000  400,000  4,561,000 | **Payments**  Salaries and wages  New equipment  Repairs and maintenance  Office expenses  Printing and stationery  Purchase of beverages  Dinner dance expenses  Refund of subscriptions  Sports prizes  Transport  Investments  Balance carried forward  **31 March 2000**  **Sh.**  240,000  690,000  3,500,000  300,000  68,000  162,000  85,000 | **Sh.**  254,000  565,000  124,000  415,000  168,000  479,000  315,000  45,000  25.000  248,000  1,500,000  405,000  4,561,000  **31 March 2001**  **Sh**.  -  -  -  375,000  72,000  184,000 |

**Additional information:**

1. Subscriptions in arrears are written-off after twelve months.
2. Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively
3. Investments, which had cost sh. 500 were sold on 30 March 2001 for Sh. 625,000 no entries have been made in the books in this respect.

**Required:**

1. Income and expenditure account for the year ended 31 March 2001

(8 marks)

1. Balance sheet as at 31 March 2001 (6 marks)

**QUESTION FIVE (20 MARKS)**

The following are the summarized financial statements of Deweto limited:

**Trading and profit and loss account for the year ended 31 October.**

|  |  |  |
| --- | --- | --- |
| Sales  Cost of sales  Gross profit  Expenses  Net profit before interest and tax  Loan interest  Net profit before tax  Taxation  Net profit after tax  Dividend  Retained profit | **2002**  **Sh. ‘000’**  93,500  (55,120)  38,380  (26,230)  12,150  (450)  11,700  (3,510)  8,190  (600)  2,190 | **2003**  **Sh.’000’**  11,350  (72,970)  38,380  (23,960)  14,420  (375)  14,045  (5,413.5)  8,631.5  (6,000)  2,631.5 |

Balance sheet as at 31 October

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fixed assets:**  Freehold premises  Plant and equipment  Motor vehicles  **Current assets:**  Stock  Debtors  Bank balance and cash in hand  **Current liabilities:**  Creditors  Taxation  Dividend  Ordinary share capital  Reserves  15% loan | **2002** | | **2003** | |
| **Sh.’000** | **Sh. ‘000** | **Sh. ‘000** | **Sh. ‘000** |
| 10,500  7,200  5,350  12,500  9,850  5,950  8,350  3,510  3,000 | 23,050  28,300  (14,860)  36,490  30,000  3,490  33,490  3,000  36,490 | 10,500  9,500  7,300  11,800  8,900  5,864.5  7,830  5,413.5  3,000 | 27,300  26,564.5  (16,243.5)  37,621  30,000  5,121  35,121  2,500  37,621 |

**Note:**

1. 80% of the sales are no credit
2. The stock as at 31 October 2001 was valued at Sh. 13,000,000

Required:

1. Calculate two ratios for each classification identified below for the financial years ended 31 October 2002 and 2003
2. Profitability (4 marks)
3. Liquidity ratios (4 marks)
4. Gearing ratios (4 marks)
5. Activity ratios (4 marks)
6. Comment on Deweto Ltd’s profitability and liquidity positions (4 marks)