**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

 BACHELOR OF COMMERCE

**BFC 3325: FINANCIAL REPORTING**

**DATE: APRIL 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Define the following terms
2. Goodwill
3. Consignment
4. Independent branches
5. Loyalties (8 marks)
6. Explain the following terms as used in recording royalty account.
7. Royalty rent
8. Minimum rent
9. Short workings
10. Red, Son and Tow who share income and losses in the ratio 2:3:5 decided to discontinue operation as of April 30th 2012 and liquidate their partnership. After accounts were closed on April 30th 2012, the following trial balance was prepared.

Red, Son & Tow

Post closing Trial Balance

April 30 2012

|  |  |  |
| --- | --- | --- |
|  | DR | CR |
| Cash  | 59,000 |  |
| Non cash  | 1,099,000 |  |
| Liabilities |  | 268,000 |
| Red capital  |  | 146,000 |
| Son capital  |  | 279,000 |
| Tow Capital  |  | 465,000 |
|  |  |  |

Between May 1st and May 18th the non cash assets were sold for Sh. 274,000 and the liabilities were paid.

**Required:**

1. Assuming that the partner with capital deficiency pays the entire amount used to the partnership, prepare a statement of partnership liquidation (4 marks)
2. Journalize the entries to represent
3. The sale of assets
4. The division of loss on the sale of assets.
5. Payment of the liabilities
6. The receipt of the deficiency
7. Distribution of cash to the partners. (6 marks)

**QUESTION TWO (20 MARKS)**

Wetangula, Kalozi and Raira who have been in partnership sharing profit 3:2:1 respectively, have provided the following balance sheet.

|  |  |  |
| --- | --- | --- |
|  | Shs.  | Shs. |
| Non Current Assets  |  |  |
| Free hold properties  |  | 12,200,000 |
| Machinery  |  | 1,600,000 |
|  |  |  |
| Current Assets  |  |  |
| Stock  | 4,500,000 |  |
| Debtors  | 7,500,000 |  |
| Bank  | 8,000,000 |  |
|  |  |  |
| Less Current Liabilities  |  |  |
| Creditors  |  | 8,000,000 |
|  |  |  |
| Non Current Liabilities  |  |  |
| Loan  |  |  |
| Financed by: |  |  |
| Capital Account  |  |  |
| Watangula  |  | 5,700,000 |
| Kalozi  |  | 4,800,000 |
| Raira  |  | 2,500,000 |
|  |  |  |
| Current Assets  |  |  |
| Watangula  | 3,500,000 |  |
| Kalozi  | 3,000,000 |  |
| Raira  | 1,300,000 | 7,800,000 |
|  |  |  |

The partnership was drawn on the day they dissolved their partnership. Additional information provided as follows:

1. The assets were sold and realized the following amount.

|  |  |
| --- | --- |
|  | Shs. |
| Freehold property  | 13,400,000 |
| Machinery  | 1,750,000 |
| Stock in trade  | 4,150,000 |
| Debtors  | 7,200,000 |

1. The partner incurred Shs 350,000 on realization.
2. Only a part of machinery was sold. The balance was taken over by Ameru at Sh. 220,000.
3. The trade creditors agreed to take sh 7 for every sh 10 owed by them.
4. Loan was pain in full.

Required:

1. Show the journals entries in the ledger (7 marks)
2. Open the following account in the ledger.
3. The transaction account (6 marks)
4. Partners capital account (3 marks)
5. Bank account (4 marks)

**QUESTION THREE (20 MARKS)**

Snowline operates a business that is divided into two departments.

Department A ladies shoes

Department B children shoes.

The following information was extracted from the books for the period ended 31.12.2014.

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Sales Department A |  | 120,000 |
| Sales Department B |  | 120,000 |
| Stock Department A 1/1/14 | 38,560 |  |
|  B 1/1/14 | 37,300 |  |
| Purchases Department A | 43,600 |  |
|  B | 45,000 |  |
| Wages Sales Assistant A | 6,000 |  |
|  B | 12,000 |  |
| General office expenses  | 9,000 |  |
| Repair of premises  | 1,800 |  |
| Fire Insurance  | 2,700 |  |
| Rates  | 3,300 |  |
| Cleaning  | 1,500 |  |
| Accountancy & Audit charges  | 6,300 |  |
| General office expenses  | 2,400 |  |

Stock at 31 Dec 2014 were valued at Department A 12,300

 B 22,400

The ratio of the total floor area occupied by each department was AB=1:2

For the purpose of costing for each department, the apportionment of expenses were based on

Floor Area Sales turnover

Rates General offices salesmen

Fire Insurance Accountage

Repair of premises Accountant fees

Cleaning General office expenses

Required:

Apportion the expenses accordingly and prepare trading profit and loss account for each department. (20 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the characteristics of Hire purchase. (5 marks)
2. Differentiate between Hire Purchase and credit sales (5 marks)
3. Discuss legal provision for Hire Purchases businesses. (5 marks)
4. Describe two types of investment accounts. (5 marks)

**QUESTION FIVE (20 MARKS)**

The following is the balance sheet of Uhuru and Rota who are equal partners in a wholesale business on 4th May 2014.

Balance sheet as at 4h May 2014

|  |  |  |  |
| --- | --- | --- | --- |
| Non Current Assets  |  |  |  |
| Motor Vehicle  |  |  | 3,200,000 |
| Furniture  |  |  | 2,500,000 |
| Current Assets  |  |  |  |
| Stock  |  | 11,400,000 |  |
| Debtors  |  | 6,900,000 |  |
| Bank  |  | 3,900,000 |  |
|  |  |  |  |
| Less current liabilities  |  |  |  |
| Creditors  | 6,400,000 |  |  |
| Accruals  | 200,000 |  |  |
|  |  |  |  |
| Financed by: |  |  |  |
| Capital 4/5/2014 |  |  |  |

On this date their business was taken by Concord Ltd on the following terms

1. All assets except cash at bank and all liabilities except outstanding expenses are to be taken over by the company.
2. Goodwill was revalued at sh.5,000,000
3. The asset to be taken over was valued as follows:

Shs.

Motor vehicle 3,000,000

Furniture 1,000,000

Stock 9,000,000

Debtors 6,000,000

1. Creditors are to be taken over valued at that book value.
2. The purchase price was to be satisfied at issue of 10,000 ordinary shares of shs 100 at 20% premium as fully paid and the balance received to be in cash.
3. In relation to issuing shares and partners the company offered 7,000 of shs 100 ordinary shares at 20% premium for public subscription. All shares were taken up and paid in full.
4. The company procured preliminary expenses of sh 1,000,000 which were written off against the share premium.

**Required:**

Computation of purchase

1. Show the following in the book of the company
2. Journal entries (8 marks)
3. Relevant ledger accounts. (8 marks)
4. Company’s opening balance. (4 marks)