Pwani University College

A Constituent College of Kenyatta University

## UNIVERSITY EXAMINATIONS 2011/2012 ACADEMIC YEAR

## INSTITUTIONAL BASED PROGRAMME

## 1ST YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

## COURSE CODE/TITLE: BAC 100: FUNDAMENTALS OF ACCOUNTING I

**END OF SESSION: I** **DURATION: 3 HOURS**

**DAY/TIME: FRIDAY 12.00PM – 3.00PM** **DATE: 19.04.2012-TF4**

**INSTRUCTIONS**

Answer question **ONE** and any other **TWO.**

**Question One**

The partnership of Jones and Smith operates a manufacturing business and their trial balance as at 30 Sept. 2011 was:

| | £ | £ |
|---|---|---|
| Bank | 5,000 | |
| Plant and machinery | 90,000 | |
| Delivery vehicle at cost | 24,000 | |
| Free hold land | 25,000 | |
| Provision for depreciation | | |
| Plant and machinery | | 42,000 |
| Delivery Vehicle | | 11,000 |
| Sales | | 956,000 |
| Rent | 8,500 | |

| | | |
|---|---|---|
| Factory expenses | 100,000 | |
| Purchases of raw materials | 348,000 | |
| Factory wages | 119,000 | |
| Return Inwards | 6,000 | |
| Carriage Inwards | 7,000 | |
| Return outwards | | 2,000 |
| Stock of raw materials | 12,000 | |
| Stock of finished goods (10,000 miss) | 27,000 | |
| Selling and distribution expenses | 78,000 | |
| Administration expenses | 202,000 | |
| Drawings: Jones | 38,000 | |
| Smith | 34,000 | |
| Capital Accounts: Jones | | 60,000 |
| Smith | | 40,000 |
| Current Accounts: Jones | | 7,500 |
| Smith | | 5,000 |
| | 1123500 | 1123500 |

The following information is also available

1. Wages of £6,000 and administration expenses of £11,000 were accrued at 30 Sept 2011.

2. The rent account included a payment of £2000 for the six months from 1 July to 31 Dec.2011. Rent is to be apportioned between the factory and administration in the ratio of 4:1.

3. Plant and Machinery is to be depreciated at 10% P.a. on cost and delivery vehicles are to be depreciated at 25% per annum on cost.

4. The factory manufactures a standard product which has a selling price of £5 per unit. During the year the factory 195000 units it is the policy of the firm to value the closing stock of finished goods on the basis of absorption (full price) costing.

5. The stock of raw materials at 30 Sept. 2011 was valued at £ 20,000

6. The Partnership agreement provides for interest to be paid on partner's fixed capital at rate of 10% P.a. and for a salary of £4000 per annum to be credit to Smith.

**REQUIRED**

a) The manufacturing, trading and Profit and loss account for the Year ended 30 September 2012 of Jones and Smith. (23 marks)

b) The balance sheet of Jones and Smith as at 30 September 2012. (7 marks)

**Question Two**

From the following Trial Balance, of Bamburi, you are required to draw up an Income statement for the Year ending 30 June 2011 and a balance sheet as at that date.

(20 marks)

Trial balance as at 30 June 2011

| | | |
|---|---|---|
| | | £ |
| Sales | | 265900 |
| Purchases | 154,870 | |
| Rent | 4,200 | |
| Lighting and heating expenses | 530 | |
| Insurance | 2,100 | |
| Buildings | 85,000 | |
| Fixtures | 1,100 | |
| Accounts Receivables | 31,300 | |
| Sundry expenses | 412 | |
| Accounts Payable | | 15,910 |
| Cash at bank | 14,390 | |
| Drawings | 30,000 | |
| Vans | 16,400 | |
| Motor running expenses | 4,110 | |
| Capital | | 114,202 |
| | 396,012 | 396,012 |

Inventory at 30 June 2011 was £ 16,280.

**Question Three**

From the following trial Balance of Kilifi Plantation extracted after the Years trading, prepare an Income statement for the Year ending 31 Dec. 2011 and a balance sheet as at that date. (20 marks)

| | | |
|---|---|---|
| | | £ |
| Sales | | 190,576 |
| Purchases | 119,832 | |
| Salaries | 56,527 | |

| | | |
|---|---|---|
| Motor expenses | 2,416 | |
| Rent | 1,894 | |
| Insurance | 372 | |
| General Expenses | 85 | |
| Premises | 95,420 | |
| Motor Vehicles | 16,594 | |
| Accounts receivables | 26,740 | |
| Accounts payable | | 16,524 |
| Cash at Bank | 16,519 | |
| Cash in hand | 342 | |
| Drawings | 8,425 | |
| Capital | | 138,066 |
| | 345,166 | 345,166 |

Inventory at 31 Dec. 2011 was £12,408

**Question four**

a) The directors of Blue Triangle Cement Co. Ltd are concerned that the company's draft, final accounts for the year ended Dec. 2011, show significant loss as compared with the consistent profit record over the past decade.
A careful search has been conducted of ways of presenting these accounts for the year under review.

i) Discontinue depreciating free hold property because of improved property valuation.

ii) Reduce the annual rates of depreciation of other fixed assets)

iii) Pay dividends out of the share premium account thus avoiding an increase in the bank overdraft and avoiding reduction in retained earning.

iv) Transfer to the next financial Year the cost of research and development work on an abortive project.

b) During the Year in review, the following unrelated accounting problems were encountered by the company.

i) The closing stock figure of £95,000 was valued on the FIFO (First In First Out) basis of stock valuation. It is proposed to revalue the stock at £70,000 by changing the basis of valuation to LIFO – Last in First Out.

ii) Two months before the end of the Year the Company negotiated and received a loan at a fixed rate of interest repayable over three years. The terms of the loan are that it is repayable quarterly in arrears. It is proposed to exclude the interest from this Year's profit calculations.

iii) The Company owns a specialist machine purchased several years ago, which has a present value of £2,000. The factory Manager has recently heard that a similar machine was sold for £12,000 two months ago and has proposed that the company machine be revalued in the accounting accordingly.

**Required**

a) Write a report to the directors advising them on each of the suggested ways of adjusting the company's loss for the Year ended 31 Dec. 2011 in a above (10 ½ marks)

b) Discuss the extent to which each proposal outlined in b above fails to comply with generally accepted accounting concepts and /or conventions. (9 ½ marks)