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**University Examinations 2015/2016**

FIRST YEAR, SECOND SEMESTER EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION

**BFD 2154: PRINCIPLES OF ACCOUNTING II**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Define the following terms and explain their treatment in financial accounting
2. Bad debt and provision for bad and doubtful debt. (5 Marks)
3. Drawings and accrued income. (5 Marks)
4. Define a partnership and discuss the main features of a partnership deed. (5 Marks)
5. The trial balance of Meru Central farmers enterprises for the year ended 31/12/2014 are as follows:

**DR CR**

**Sh.000 Sh.000**

Motor vehicle 6, 000

Fixtures 4, 000

Sheets 1/1/2014 2, 000

Sales 30, 000

Purchases 14, 000

Rent 2, 000

Salaries and wages 2, 000

Electricity 1, 000

Telephone 800

Motor vehicle expenses 1, 000

Discounts 1, 200 1, 000

Returns 2, 000 1, 000

Debtors and Creditors 8, 000 6, 000

Cash 4, 000

Bad debt 1, 000

Provision for bad & doubtful

Debts 1, 000

Drawings 2, 000

Capital 12, 000

51, 000 51, 000

Additional information:

1. Rents outstanding at the end of the year amounts is sh.400, 000
2. Accrued electricity is sh.100, 000
3. Stock as at 31/12/2014 amounts to sh.6, 000, 000
4. Salaries and wage paid in advance amount to sh.200, 000
5. Pre-paid telephone bills is sh.200, 000
6. Depreciation is provided on motor vehicle and fixtures at 10% and 20% respectively on cost.
7. Provision for bad and doubtful debts is to be set at 10% of debtors.

**Required:**

1. Trading profit and loss account for the year ended 31st December 2014. (8 Marks)
2. Balance sheet as at 31st December 2014 (7 Marks)

**QUESTION TWO (20 MARKS)**

The following balance sheet was extracted from the books of Norah and Alice as at 31st December 2014.

**DR. CR**

**Shs.000 Shs.000**

Capital: Norah 1, 250

Alice 1, 000

Current Account

Norah 50

Alice 25

Drawing

Norah 562.5

Alice 537.5

Net profit 2, 000

Fixed Asset net

Land &Buildings 1, 250

Plant & Machinery 750

Motor vehicle 500

Accumulated Depreciation:

Land & Building 250

Plant & Machinery 125

Motor vehicle 125

Debtors 250

Stock 500

Cash 725

Creditor 250

5, 075 5, 075

Additional information:

1. Profit sharing ration for Norah and Alice is 3:2 respectively
2. Interest on capital is 10% per annum
3. The monthly salaries for Norah and Alice is Shs.3, 750 and Shs.5, 000 respectively
4. Interest on drawings is charged at 5% per annum.

**Required:**

1. Profit and loss appropriation accounts (7 Marks)
2. The current accounts (5 Marks)
3. The balance sheet as at 31st December 2014 (8 Marks)

**QUESTION THREE (20 MARKS)**

The following is a trial balance of Rivetex Manufacturing Company limited as at 30th June 2015.

Ksh. Ksh.

Sales 11, 085, 000

Purchase 5, 475, 000

Carriage outwards 122, 500

Wages and salaries\* 3, 645, 000

Rates, and insurance\* 270, 000

Sundry expenses\* 912, 500

Stock at 1 July 2014

Row material 1, 035, 000

Finished goods 450, 000

Vehicle expenses\* 360, 000

Fixed assets at cost

Factory premises 3, 000, 000

Plant & Machinery 750, 000

Motor vehicle\* 180, 000

Provision for depreciation 1/7/14

Factory premises 420, 000

Plant & machinery 270, 000

Motor vehicle 75, 000

Debtors and creditors 120, 000 135, 000

Bank overdraft 210, 000

Retained profit 1/7/2014 925, 000

Ordinary shares 160, 000 3, 200, 000

of shs.20 each

16, 320, 000 16, 320, 000

**Additional information:**

1. Provision for depreciation factory premises and plant and machinery 10% per annum motor vehicles 25 per annum.

iii) Stock as at 30th June 2015

Raw materials Ksh.1, 260, 000

Finished goods Ksh.555, 000

1. Salaries and wages include directors remuneration of sh.540,000
2. Expenses related to items marked (\*) in the trial balance are to be apportioned to the manufacturing and profit and loss accounts in the ratio 2:1 respectively.

**Required:**

1. The manufacturing trading and profit and loss accounts for the year ended 30th June 2015 (12 Marks)
2. The balance sheet at 30th June 2015 (8 Marks)

**QUESTION FOUR (20 MARKS)**

1. Discuss the main limitations of ratio analysis (5 Marks)
2. What are the main uses of ratio analysis (5 Marks)
3. Which are the main source of income for non profit making organization (N.P.O) (5 Marks)
4. The following is a statement of financial position of Lios Company ltd as at 31st December 2014.

**New Current asset Issued share Capital**

Land & Building 25, 000, 000 2, 000, 000 shares

Plant & Machinery 8, 000, 000 of sh.10 20, 000, 000

33, 000, 000 Reserves 9, 000, 000

Inventory 7, 500, 000 Retained profit 6, 000, 000

Debtors 14, 500, 000 Long term loan 10, 000, 000

Cash 3, 000, 000 Current liability 13,000, 000

58, 000, 000 58, 000, 000

Calculate the following ratios:

1. Current ratio (3 Marks)
2. Acid test ratio (2 Marks)