SCHOOL OF BUSINESS AND ECONOMICS
FINANCIAL ACCOUNTING II

Main Exam 2017/2018 **ECO 104**

Answer Question ***one*** *and any other three.* **3 Hours**

Question One

a) Discuss the grounds under which a partnership may be dissolved with reference to the Partnership Act Cap 29. (8mks)

b). The following was the balance sheet of Daniel and Nicolas sharing profits and losses in the ratio of 3:2 as on 31st December, 2016.

Assets			
Non-current assets			**Kshs.**
Plant & Machinery			280,000
Furniture			40,000
Investments			100,000
			420,000
Current Assets			
Stock		60,000	
Debtors	200,000		
Less prov.	10,000	190,000	
Bank		115,000	
Profit & Loss A/c		50,000	
		415,000	
Current Liabilities			
Creditors		380,000	
Net current assets			35,000
			455,000
Financed by:			
Capital:			
Daniel	100,000		
Nicolas	80,000		
	180,000		
Loans			
Daniel's loan		100,000	
Nicolas's loan		150,000	
Reserve fund		25,000	
			455,000

The firm was dissolved on 31st December, 2016 and the following was the result:

i). Daniel took over investments at Kshs.80,000 and agreed to set it off against the loan.

ii). The assets realized as follows:

- Stock Kshs.10,000 less
- Debtors Kshs. 185,000
- Furniture Kshs.5,000 more
- Plant Kshs.30,000 less

iii). Expenses of realization was Kshs.6,000

iv). Creditors were paid off less 2.5% discount

ed:

the ledger accounts to close off the books of the firm (17mks)

uestion Two

a). Briefly explain the features of dependent branches (5mks)

b). Nairobi Head office supplies goods to its branch at Nakuru at invoice price which is cost plus 50%. All cash received by the branch is remitted to Nairobi Head office and all branch expenses are paid by the head office. The particulars relating to Nakuru branch for the year 2016 are as follows:

Stock with branch on 1/1/2016 (at invoice price)	Sh. 600,000
Branch debtors on 1/1/2016	Sh. 120,000
Petty cash balance on 1/1/2016	Sh. 1,000
Goods received from Head office (at invoice price)	Sh.1,860,000
Goods returned to Head office	Sh. 30,000
Credit sales Less Returns	Sh. 840,000
Allowance to customers off selling price(already adjusted while invoicing)	Sh. 20,000
Cash received from debtors	Sh. 900,000
Discount allowed to debtors	Sh. 24,000
Expenses (cash paid by Head office): Rent Sh. 24,000; Salaries Sh.240,000; Petty Cash Sh. 10,000	Sh. 274,000
Cash sales	Sh.1,040,000
Stock with branch at 31/12/2016 (at invoice price)	Sh. 540,000
Petty cash on 31/12/2016	Sh. 1,000

Required:

Prepare branch stock account, branch debtors' account, branch adjustment account and branch profit and loss account in the books of the head office. (15mks)

Question Three.

a) i) What are the main distinctions between a debenture and a share? (5mks)

ii) Describe the various methods for redemption of debentures (5mks)

b) What are the sources from which bonus shares can be issued? (5mks)

Question Four

The balance sheet of Fresha Co. Ltd is as follows:

Balance Sheet
As on 31st March, 2016

Assets		**Shs**
Non-current assets		11,400,000
Patent and copyrights		800,000
Investment at cost		650,000
(Market value Kshs.550,000)		
		12,850,000
<u>Current Assets</u>:		
Stock	400,000	
Debtors	439,000	
Bank	100,000	
Profit & Loss A/c	4,080,000	
	12,570,000	
<u>Current Liabilities</u>:		
Creditors	690,000	
ABC Bank overdraft	1,500,000	
Interest accrued on Bank OD	150,000	
Interest accrued on debentures	1,080,000	
	3,420,000	
Net Current Assets		9,150,000
		22,000,000

Financed by:	
2,000,000 equity shares of sh.10 each Ksh 5 paid up	10,000,000
60,000 8% preferences shares of Shs.100 each	6,000,000
9% debentures	6,000,000
	22,000,000

Additional Information

i). Preferences shareholders to give up their claims inclusive of dividends for the year to the extent of 30% and to be paid off.

ii). Debentures holders agree to give up their claims to interest in consideration of their interest being enhanced to 12%

iii). Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.

iv). Creditors would like to grant a discount of 5% if they are paid immediately.

v). Balance of Profit & Loss Account, Patents and Copyrights and Debtors of Kshs.300,000 to be written off.

vi). Non-current assets to be written by Kshs.340,000

vii). Investments are to be reflected at their market value

viii). To extent not specifically stated equity shareholders suffer on reduction of their rights. Cost of reconstruction is Ksh.33,500

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journal entries in the book of the company assuming that the scheme has been through fully with the equity shareholders bringing in necessary cash to pay off the arties and to make a working capital of Kshs.300,000. (10mks)

Also prepare the Balance Sheet immediately after the reconstruction. (5mks)

Question Five

The following balances were extracted from the general ledger of Chesters Co. Ltd on 30th June, 2016, after the preparation of trading account:

8% preference share capital	1,000,000
Ordinary share capital	3,500,000
Land & building (cost Sh.5,750,000) bal	6,000,000
Equipment (cost Sh.400,000) bal	280,000
Motor vehicles (Cost Sh.860,000) bal	602,000
Goodwill (Cost Sh.800,000) Bal	775,000
6%Rebentures (repayable year 2020)	1,500,000
Stock at 30th June 2016 bal	1,361,000
Salaries & wages exp	462,000
Directors remuneration	315,000
Motor vehicle expenses	406,000
Rates and insurance	146,500
General expenses	28,000
Debenture interest	75,000
Debtors	930,500
Creditors	568,500
Cash at bank	419,500
General Reserves	250,000
Share premium	700,000
Interim ordinary dividend paid	175,000
Fixed assets (Land & Building) Revaluation Reserve at 1/7/2014	250,000
Profit and loss account at 30/6/2015	847,000
Gross profit for the year	3,360,000

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Additional information

i). The policy of the company regarding depreciation is:

- Not to depreciate Land and Building but to revalue the buildings at the end of every two years. The market value as at 30th June, 2016 has been agreed with valuation experts at Sh.6,300,000.
- To depreciate Motor Vehicles at the rate of 25 percent per annum on reducing balance.
- To depreciate Equipment at the rate of 12.5% per annum on cost using the straight line depreciation method.

ii). The interest on debentures is paid semi-annually on 1st July and 1st Ja[illegible] company makes provision for interest accrued during the Financial Year [illegible] paid.

iii). Goodwill is written off at the rate of 3.125% per annum on cost.

iv). The Directors propose that the preference dividends and also a final ordinary dividend which will bring the total dividend on ordinary shares for the year to Sh.1.50 per share be paid.
The Directors also propose to transfer Sh.100,000 to General Reserve.

v). Casual workers have not yet been paid Sh.45,000 in respect of the services rendered during the last two weeks of June 2016.

vi). Sales in the years amounted to Sh.5,400,000 while purchases were Sh.2,100,000.

Required:

i). Prepare Profit and Loss Account in the form for publication for the year ended 30th June 2016. (8mks)

ii). Balance sheet as at on 30th June, 2016. (7mks)