

KENYA METHODIST UNIVERSITY

**END OF 1ST TRIMESTER 2017 (EVENING) EXAMINATION**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : ACCOUNTING, FINANCE AND INVESTMENT**

**UNIT CODE : ACCT 117**

**UNIT TITLE : PRINCPLES OF ACCOUNTING 2**

**TIME : 2 HOURS**

**INSTRUCTIONS**

*Answer all questions in Section A and any two in Section B.*

**SECTION A**

**Question One**

1. Explain the following terms as used in accounting (10 Marks)
2. Income and expenditure
3. Debentures
4. Statement affairs
5. Issue of shares at par
6. You are provided with the following information about Magena Ltd

Number of ordinary share 100, 000

Nominal value per ordinary share £ 1

Market price per ordinary share £ 2

Net profit before corporation tax £ 50, 000

Rate of corporation tax 50%

Dividend rate 10%

You are required to calculate (6 marks)

1. Dividend yield
2. Dividend cover
3. Earning per share
4. P/E Ration
5. List the main advantage of ratios. (4 Marks)
6. Otieno and Njuguna are in partnership sharing profit and losses in the ration of 2:2 but Otieno is guaranteed by Njuguna to receive a profit of shs.7000.

The net profit for the year ended 31st December 2007 and 2008 were sh.12,000 and shs.19,000 respectively

Required

Prepare the appropriate of profit and loss accounts for the two years. (10 marks)

**SECTION B**

**Question Two**

The following balances have been extracted from books of Bingwa manufactures as at 31st December 2002

|  |  |  |
| --- | --- | --- |
|  |  | “000” |
| Stock as at 1st January 2002 | Raw materials | 7,000 |
|  | Work in progress | 5,000 |
|  | Finished good | 6,900 |
| Purchase of Raw material |  | 38,000 |
| Direct Labor | Variable | 28,000 |
| Factory over heads | Fixed | 16,000 |
|  | Rent and Rates | 9,000 |
| Administrative Expenses | Lighting | 19,000 |
|  | Stationery and postage | 6,000 |
|  | Staff salaries | 2,000 |
| Sales |  | 19,000 |
| Plant and Machinery | At cost | 192,000 |
|  | Provision for depreciation | 30,000 |
| Motor Vehicles (for sales deliveries) | At cost | 12,000 |
|  | Provision for Depreciation | 16,000 |
| Creditors |  | 4,000 |
| Debtors |  | 5,500 |
| Drawings |  | 28,000 |
| Balance at Bank |  | 115,600 |
| Capital as at 1 January |  | 16,600 |
| 2002 |  | 48,000 |
| Motor vehicle running costs |  | 1,380 |
|  |  | 4,500 |
| **Additional information** |  | ‘000” |
| Raw materials |  | 9,000 |
| Work in progress |  | 8,000 |
| Finished goods |  | 10,350 |

Other Information

1. The factory out put is transferred to the trading account at factory cost plus 25% of factory profit
2. Depreciation is provided at the following rate on the original cost of fixed assets held at the end of each financial year

Plant and machinery 10% per annum

Motor vehicles 25% per annum

1. Amount accrued at December 2002 for direct labor amounted to sh.3,000,000 and rent and rates prepaid at 31st December 2002 amounted to 2,000,000.

Required

1. Manufacturing trading and profit and loss account for the year ended 31st December 2002. (12 Marks)
2. Balance sheet as at 31st December 2002. (8 Marks)

**Question Three**

1. Explain the following terms (4 marks)
2. Share premium
3. Right issue
4. The wide trading company limited has an authorized capital of sh.500,000 dividend into 5,000 ordinary shares of shs.100 each.

On 1st January 2001 the board of directors decided to issue 4000 shares at shs.125 each payable as sh.50 on application shs.50 on allotment (including shs.25 premium) and shs.25 on first and final call. There were 200 shares in arrears at the end of the period.

Required

Prepared the application and allotment accounts, first and final call account. Ordinary share capital account, share premium account calls in arrears account and the Bank account for the wide trading company. (16 Marks)

**Question Four**

The following information is prepared by the wise men social club for the year ended 31st December 2003 Receipts and payments accounts for the year ending 31st December 2003

|  |  |  |  |
| --- | --- | --- | --- |
| Receipts | Sh. | Payment | Sh. |
| 2003 1 January |  | 2003 31st December |  |
| Cash at Bank | 11,410 | Wages | 30,870 |
| Deposits | 36,400 | Rent and Rates | 7,000 |
| 31 December |  | Repairs to Pavilion | 4,900 |
| Members subscription | 31,710 | Games and Equipment | 23,450 |
| Bar Receipts | 142,240 | New Lawn Mower  Less proceeds of sale of R  Old lawn mower Shs. |  |
| Surplus on Dances | 13,510 |  |  |
| Interest on deposits | 1,960 | 3150 | 10,850 |
| Donations | 980 | Bar Purchase | 106,680 |
| Competitions fees | 1,260 | Secretarial charges | 3,290 |
|  |  | Miscellaneous Expenses | 3,500 |
|  |  | Prizes | 1,540 |
|  |  | Cash and Bank | 8,540 |
|  |  | Deposit | 38,850 |
|  | 239,470 |  | 239,470 |

1. Additional information

|  |  |  |
| --- | --- | --- |
|  | 1.1.2003 | 31.12.2003 |
| Value of Bar Stock At cost | 9170 | 7700 |
| Subscriptions one but not Received | 3990 | 3010 |
| Creditors for Bar Supplies | 2800 | 2310 |
| Amount Due for Secretarial Service | 1400 | 1610 |
| Miscellaneous Expenses paid in advance | 840 | 560 |

1. At 1 January 2003 the book values of fixed assets were pavilion shs. 101500 (cost shs. 9,450)
2. The club provided depreciation on fixed assets on straight line basis at the rate of 10% per annum on pavilion and 20% per annum on new lawn mower and games equipments

Required

1. Statement of affairs as at 1st January 2003. (6 Marks)
2. Income and expenditure account (8 Marks)
3. Balance sheet as at 31st December 2003. (6 Marks)

**Question Five**

The following balance sheet for Leela Heritage Ltd was provided for the year ending 31st December 2008

|  |  |  |
| --- | --- | --- |
|  | As at 31st December | |
|  | £ | £ |
|  | 2007 | 2008 |
| Issued share capital £ 1 ordinary shares | 18,000 |  |
| Retained profits  9,200 | 7,500 | 23,000 |
| 10% debentures  7,500 | 6,000 |  |
| Taxation payable 1st January following  3,200 | 2,900 |  |
| Trade and expenses creditors  3,400 | 3,200 |  |
| Proposed dividends (gross)  600  46,900 | 500  £38,100 |  |
| Fixed assets at cost  25,000 | 23,000  5,650 |  |
| Less depreciation  6,200 |  |  |
| 18,800 | 17,350 |  |
| Stocks  14,695 |  |  |
| Debtors |  |  |
| 4,150 | 4,200 |  |
| Balance at Bank | 4,550 |  |
| 9,225  46,900 | £38,100 |  |

Note:

During the year fixed assets were purchases at cost of £5600, fixed assets which cost £3,600 were disposed of for a value of £2500 and the profit has been included in the retained profit

Required

Prepare a cash flow statement for the year. (20 Marks)