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**University Examinations 2014/2015**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF BUSINESS ADMINISTRATION AND BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

**BFC 3175: FINANCIAL ACCOUNTING II**

**DATE: AUGUST 2015 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Explain the content of the following two documents as used in formation of companies:
2. Memorandum of Association
3. Articles of Association (5 Marks)
4. Briefly explain the reasons why a company would not distribute all its profits to its shareholders (5 Marks)
5. The following trial balance was extracted from the books of Bible Society as at 30 September 2010

Shs. Shs.

Balance at bank current account 724,800

Accumulated fund 1 October 2009 5,771,200

Land and building at cost 3,700,000

Debtors for subscription 62,000

Furniture and fittings 1,874,000

Provision for depreciation of furniture &

fittings 284,000

Subscriptions 1,450,800

Lecturers’ fees 920,000

Lecturers’ travel and accommodation

expenses 358,000

Donations 108,000

Camera and projector repairs 17,000

Projectors, cameras and audio equipment 190,400

Depreciation of equipment 54,400

Rates and water 277,000

Lighting and heating 367,200

Rental of rooms 495,000

Wages – caretaker 880,000

Restaurant 1,600,000

Bar staff 800,000

Purchase of food 1,565,800

Stock-bar 1 October 2009 473,600

Bar receipts 4,032,000

Bar purchases 2,842,000

Restaurant receipts 3,642,000

Loan 1,600,000

Deposit account-bank 1,000,000

Interest payable and receivable 36,000

Creditors for bar and food 178,400

17,651,800 17,651,800

Additional Information

1. The bar stock was valued at shs.642,800 as at 30 September 2010
2. It is expected that of the debtors for subscriptions shs.43,600 will not be collectable
3. The interest account is net. The loan is at a concessional rate of 4% while 10% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.
4. An invoice for shs.43,000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation
5. Depreciation for the year is to be provided as follows:

Furniture and fittings shs.194,000

Projectors, cameras etc shs.19,000

**Required:**

1. Bar and restaurant trading account for the year ended 30 September 2010 (8 Marks)
2. An income and expenditure account for the year ended 30 September 2010 (12 Marks)

**QUESTION TWO (20 MARKS)**

Nzioka is a grocer who had not kept complete books of account. The following was a summary of his bank statements for the year ended 31 October 2000:

**Shs Shs.**

Amount credited by bank 7,034,000 Balance 1 November 1999 178,400

Payment to trade creditors 6,100,000

Rent and rates 95,000

Fixtures 20,000

Lighting & heating 42,000

General expenses 160,000

Loan interest 24,000

Drawings 180,000

Customer cheque

dishonoured 36,000

Balance 31 October 2000 198,600

7,034,000 7,034,000

The following information is also available;

1. Trading receipts consists partly of cash and party of cheques. During the year, Nzioka had paid out of his cash takings wages amounting to shs.590,000 and sundry expenditure of shs.28,000. He retained shs.600 a week (assume 52~weeks in a year) pocket money and maintained a balance of shs.4,000 in the till tot change. The balance of his takings together with cheques amounting to shs.50,000 which he had cashed out of his takings was paid into the bank
2. Cheque drawn payable to trade creditors. But not presented at 1 November 1999 amounted to shs.56,000 and at 31 October 2000 shs.64,000.
3. All dishounored cheques were re-presented and honoured during the year
4. The loan interest was paid to the lender who had lent Nzioka shs.800,000 some years ago at a rate of 3% p.a. The interest was duly paid half-yearly on 31 January and 31 July and the loan was still outstanding at the close of the year
5. Discounts allowed by trade creditors amounted to shs.96,000 and those allowed to debtors were shs.104,000

As at November 1999 31 October 2000

Shs. Shs.

Stocks 900,000 1,600,000

Trade debtors 560,000 640,000 (includes a bad debt

shs.40,000)

Accrued general expenses 48,000 38,000(to be written off)

Rates paid in advance 8,000 10,000

Fixtures valued at 560,000 510,000

Trade creditors 360,000 440,000

Creditors for lighting and heating 16,000 14,000

**Required:**

1. A statement of Nzioka’s capital on 1 November 1999 (10 Marks)
2. Profit and loss account for the year ended 31 October 2000 and a balance sheet at that date (10 Marks)

**QUESTION THREE (20 MARKS)**

1. Explain the following terms:
2. Share premium (2 Marks)
3. Authorized share capital and issued share capital (3 Marks)
4. The Wide Trading Company Limited has an authorized capital of shs.500,000 dividend into 5,000 ordinary shares of shs.100 each.

On 1 January 2001, the Board of Directors decided to issue 4,000 shares at shs.125 each payable as shs.50 on application, Shs.50 on allotment (including the shs.25 premium) and shs.25 on first and final call. The applications were receivable on 20 January 2001 when allotment was made. The allotment money was receivable by 15 February 2001. The first and final call was made on 15 March 2001 and the call money receivable by 31 March 2001. Applications were received for 6,000 shares. The directors decided to refund money for 1,000 shares and the other applicants were allotted prorate with the excess money utilized to meet part of the allotment money. The balance of the allotment money was received on the due date. The first and final call was made and the call money received on the due date

**Required:**

1. Application and Allotment Account, first and Final call Account, Ordinary Share Capital Account, Share Premium Account and bank account (10 Marks)
2. Balance sheet as at 12 April 2001 (5 Marks)

**QUESTION FOUR (20 MARKS)**

Kaluwax Ltd manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the books of the company at 30 April 2001:

**Shs. Shs**

Stocks at 1 May 2000

Raw materials, at cost 350,000

Work-in-progress, at factory cost 1,800,000

Finished goods (3,500 units) at factory cost 3,500,000

Raw materials purchased 3,950,000

Sales (12,000 units) 18,000,000

Manufacturing wages 3,000,000

Factory rent and rates 1,400,000

Factory light, heat and power 655,000

Plant at cost 6,000,000

Plant depreciation at 1 May 2000 2,800,000

Works manager’s salary 245,000

Plant repairs 400,000

Administrative overheads 1,800,000

Factory lease at cost (20 yrs duration) 4,000,000

Amortisation at 1 May 2000 1,200,000

Share capital 7,500,000

Debtors 3,050,000

Bank balance 1,600,000

Creditors 2,450,000

Carriage inwards 200,000

31,950,000 31,950,000

The following additional information is available:

1. Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.
2. Raw materials costing shs.500,000 were in stock on 30 April 2001.
3. Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to shs.2,300,000.
4. There was no wastage or pilferage during the current year.

**Required:**

Manufacturing, trading and profit and loss account for the year ended 30 April 2001 (20 Marks)

**QUESTION FIVE (20 MARKS)**

The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

1. The business entity principle
2. The historical cost principle
3. The monetary principle
4. The matching principle
5. The conservatism principle

**Required:**

For each of the principles listed above:

1. Explain the meaning (10 Marks)
2. Justify the meaning (5 Marks)
3. Explain any weaknesses associated with its use (5 Marks)