UNIVERSITY EXAMINATIONS: 2016/2017

ORDINARY EXAMINATION FOR THE BACHELOR OF COMMERCE

CAA 101 INTRODUCTION TO ACCOUNTING II

DATE: APRIL 2017 **TIME: 2 HOUR**

INSTRUCTIONS: Answer ALL Questions.

QUESTION ONE (15 Marks)

LMS Ltd has an authorized capital of ksh200, 000, consisting of 160,000 ordinary shares of ksh 1 each and 40, 000, 8 per cent preference shares of ksh 1 each.

Of these, 120, 000 ordinary shares and all the preference shares that had been issued when the business first started trading. The following information is available;

- The business has a financial year end of 31 December. The first three years of business resulted in net profit as follows: 2017 KSH 27, 929; 2018 KSH 32, 440; 2019 KSH 36,891.
- Dividends were paid each year on the preferences shares. Dividends on the ordinary shares were proposed as follows: 2017, 8 per cent; 2018; 10 per cent; 2019, 11 per cent.
- Corporation tax, based on the profits of each year, was; 2017 ksh 8,331; 2018 ksh 10,446; 2019 ksh 12,001.
- Transfers to reserves were made as; general reserve 2017 ksh 3,000, 2018 ksh4,000, and foreign exchange reserve 2019 ksh 2000.

You are to show the profit and loss appropriation accounts for each of the years 2017, 2018 and 2019. **(15 Marks)**

QUESTION TWO (20 Marks)

a) Identify and explain the various classifications of ratios and their importance in financial statements analysis **(10 Marks)**

b) Identify and explain the key issues arising from an audit of SACCOs that are significantly different from an audit of a limited liability company **(10 Marks)**

QUESTION THREE (20 Marks)

The following list of balances as at 30 September2009 has been extracted from the books of Brick and Stone, trading in partnership, sharing the balance of profits and losses in the proportions 3:2 respectively.

	Kshs.
Printing, stationery and postages	3,500
Sales	322,100
Inventory in hand at 1 October 2008	23,000
Purchases	208,200
Rent and rates	10,300
Heat and light	8,700
Staff salaries	36,100
Telephone charges	2,900
Motor vehicle running costs	5,620
Discounts allowable	950
Discounts receivable	370
Sales returns	2,100
Purchases returns	6,100
Carriage inwards	1,700
Carriage outwards	2,400
Fixtures and fittings: at cost	26,000
Provision for depreciation	11,200
Motor vehicles: at cost	46,000
Provision for depreciation	25,000
Provision for doubtful debts	300
Drawings: Brick	24,000
Stone	11,000
Current Account balances at 1 October 2008:	
Brick	3,600
Stone	2,400
Capital account balances at 1 October 2008:	
Brick	33,000
Stone	17,000
Receivables	9,300

Payables	8,400
Balance at bank	7,700

Additional information:

1. Kshs.10,000 is to be transferred from Brick's capital account to a newly opened Brick Loan Account on 1 July 2009. Interest at 10 per cent per annum on the loan is to be credited to Brick.
2. Stone is to be credited with a salary at the rate of Kshs.12,000 per annum from 1 April 2009.
3. Inventory in hand at 30 September 2009 has been valued at cost at Kshs.32,000.
4. Telephone charges accrued due at 30 September 2009 amounted to Kshs.400 and rent of Kshs.600 prepaid at that date.
5. During the year ended 30 September 2009 Stone has taken goods costing Kshs.1,000 for his own use.
6. Depreciation is to be provided at the following annual rates on the straight line basis:

Fixtures and fittings	10%
Motor Vehicles	20%

Required:

(a) Prepare a trading and profit and loss account for the year ended 30 September 2009 **(10 Marks)**

(b) Prepare a balance sheet as at 30 September 2009 which should include summaries of the partner's capital and current accounts for the year ended on that date **(10 Marks)**

QUESTION FOUR (15 MARKS)

(a) Explain the importance of a cash flow statement to an enterprise **(5 Marks)**

(b) ABC Enterprise Ltd, a paper manufacturing company, extracted the following balance sheets as at 31 March:

	2008	2007
	Shs '000'	Shs '000'

Assets		
Non current assets		
Freehold land	3,640	3,400
Plant and equipment	14,210	6,200
Motor vehicles	2,940	5,580
	20,790	15,180
Current assets		
Inventory	2,700	2,370
Accounts receivable	3,030	2,460
Prepaid expenses	930	510
Cash at bank	600	930
	28,050	21,450
Equity and liabilities		
Capital and reserves		
Ordinary share capital	10,200	6,900
Share premium	4,950	1,650
General reserves	1,290	840
Revaluation reserves	1,500	1,260
Retained profits	4,500	3,540
	22,500	14,190
Non current liability		
Commercial paper	1,800	3,450
Current liabilities		
Accounts payable	2,046	1,680
Taxation	264	330
Proposed dividends	1,350	1,020
Bills payable	150	780
	3,810	3,810
Total equity and liabilities	28050	21450

Additional information

1. During the y ear, the company spent Shs 9,700,000 in the purchase of an item of equipment and expansion of plant. The company also disposed of motor vehicles with a net book value of Shs 1,620,000 and realized Shs 1,480,000. The depreciation charge on motor vehicle during the year was Shs 1,020,000
2. The company paid Shs 362,000 being interest on commercial paper. The interest was charged to the profit and loss account
3. The current tax expense for the year ended 31 March 2008 amounted to Shs 420,000.
4. The directors propose to pay a dividend of Shs 1,350,000 for the year ended 3` March 2008.

Required

Cash flow statements or the year ended 3` March 2008 in conformity with IAS 7 (cash flow statements) **(10 Marks)**