



UNIVERSITY OF EMBU

2017/2018 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 102: FUNDAMENTALS OF FINANCIAL ACCOUNTING II

DATE: APRIL 6, 2018

TIME: 8:30 AM – 10:30 AM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

- a) Distinguish between the following
- i) Income and expenditure account versus receipts and payments account
 - ii) Reserves versus provisions.
 - iii) Issued share capital and called up share capital (6 marks)
- b) Outline the purposes of ratio analysis (6 marks)
- c) Describe the sources and uses of cash as shown in the cash flow statement (6 marks)
- d) Enumerate the reasons for incomplete records in some firms (6 marks)
- e) Pesamingi Commercial Bank Ltd. offered 200,000 ordinary shares for sale to the public at a par value of Sh.17.5 each, payable as follows:
- On application, Sh.5 due
 - On allotment, Sh.5 due
 - On first call and final call Sh.7.50

Additional information:

- The company received applications for 230,000 shares on the due dates. Applications for 30,000 shares were rejected and the application money refunded.
- All money due on first and final call was received except for Sh.8,000 shares

Required:

Prepare ledger accounts to record the above transactions.

(6 marks)

QUESTION TWO (20 MARKS)

The trial balance of Plastics Ltd as at 31 October 2017 is as follows:

	Sh.'000	Sh.'000
Ordinary shares of Sh.50 each		10,000
10% preference shares of Sh.100 each		9,000
10% debentures		8,000
Land and buildings (net book value)	25,000	
Plant and machinery (net book value)	8,000	
Motor vehicles (net book value)	2,000	
Inventory	6,000	
Accounts receivables and payables	20,000	19,000
Cash at bank	4,100	
Capital redemption reserve		6,000
Share premium		4,000
Retained profits as at (November 2016)		3,000
Debenture interest	400	
Preference dividend	450	
Gross profit		25,000
Other operating income		4,000
Administrative expenses	13,000	
Distribution costs	6,000	
Other operating expenses	1,550	
Interim ordinary dividend paid	2,000	
Corporation tax		<u>500</u>
	<u>88,500</u>	<u>88,500</u>

Additional information:

1. A final ordinary dividend of Sh.2 million is proposed.
2. The balance on the corporation tax for the current year is estimated at Sh.3 million.

Required:

- i) Income statement for the year ended 31 October 2017. (12 marks)
- ii) Balance sheet as at 31 October 2017. (8 marks)

QUESTION THREE (20 MARKS)

The following balances have been extracted from the books of Limuru Manufacturers, a small scale manufacturing enterprise, as at 31 December 2017:

		Sh. '000'
Stocks as at 1 January 2017:	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labour		28,000
Factory overheads:	Variable	16,000
	Fixed	9,000
Administrative expenses:	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (for sales deliveries):	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2017		48,000
Provision for unrealized profit at 1 January 2017		1,380
Motor Vehicle running costs		4,500

Additional information:

1. Stocks at 31 December 2017 were as follows:

	Sh. '000'
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350
2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.	
3. Depreciation is provided at the rates shown below 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
4. Amounts accrued at 31 December 2017 for direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2017 amounted to Sh. 2,000,000.	

Required:

- a) Manufacturing and income statement for the year ended 31 December 2017. (12 marks)
- b) Statement of financial position as at 31 December 2017. (8 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the purposes for which control accounts are prepared in a business organisation. (4 marks)
- b) XML Ltd. maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December 2017 are listed below:

	Sh.
Balance at 1 December 2017:	
Sales ledger	6,185,000 (debit)
	52,500 (credit)
Purchases ledger	16,500 (debit)
	4,285,000 (credit)
Transactions during December 2017:	
Sales on credit	8,452,000
Purchases on credit	5,687,500

Returns inwards	203,500
Returns outwards	284,000
Bills of Exchange payable	930,000
Bills of Exchange receivable	615,000
Cheques received from customers	7,985,000
Cheques paid to suppliers	4,732,000
Cash paid to suppliers	88,500
Bill payable dishonoured	400,000
Charges on bill payable dishonoured	10,000
Cash received from credit customers	153,000
Bad debts written-off	64,500
Cash discounts allowed	302,000
Bill receivable dishonoured	88,500
Balances at 31 December 2017:	
Sales ledger	44,000 (credit)
Purchases ledger	23,500 (debit)

Required:

Sales ledger and the purchases ledger control accounts for the month of December 2017

(16 marks)

QUESTION FIVE (20 MARKS)

The following information was extracted from the financial statements of Sunrise Ltd. and Sunset Ltd. in respect of the year ended 30 September 2017:

Income statement extracts for the year ended 30 September 2017:

	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Sales	497,000	371,000
Cost of sales	258,000	153,000
Operating profit	138,000	79,000
Interest expense	19,000	-

Balance sheet extracts as at 30 September 2017:

	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Non-current assets	142,000	92,000
Current assets:		
Inventory	100,000	87,000

Debtors	46,000	42,000
Cash at bank	40,000	44,000
<hr/>		
Current liabilities	98,000	108,000
Long-term loan	33,000	-
Shareholders funds	197,000	157,000

Required:

Compare the performance of the two companies using the following ratios

- a) Acid test ratio (4 marks)
- b) Inventory turnover (4 marks)
- c) Debtors average collection period (4 marks)
- d) Return on capital employed (4 marks)
- e) Debt equity ratio (4 marks)

--END--