# MACHAKOS UNIVERSITY

**University Examinations for 2019/2020 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING BANKING AND FINANCE**

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR**

**BACHELOR OF ECONOMICS AND FINANCE**

**BACHELOR OF ECONOMICS**

**BACHELOR OF EDUCATION**

**BACHELOR OF COMMERCE**

**BAC 101: FUNDAMENTALS OF ACCOUNTING II.**

**DATE: 11/12/2020** **TIME: 2:00 – 4:00 PM**

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**INSTRUCTIONS:**

***Answer question one and any other two questions.***

**QUESTION ONE (COMPULSORY) (30 MARKS)**

a) A partnership is a business organization formed through agreement among partners. Describe six major elements described in a general partnership agreement. (6 marks)

b) Briefly explain the meaning of each of the following:

i. share premium (1.5 marks)

ii. Authorised capital (1.5 marks)

iii. Factory overheads (1.5 marks)

iv. Debt capital (1.5 marks)

c) Differentiate between the following:

i. trading profit and manufacturing profit (2 marks)

ii. Reserves and retained profits (2 marks)

iii. ordinary shares and preference shares (2 marks)

iv. bonus issue and rights issues of shares (2 marks)

d) Mekah Limited has provided the following extract information from their accounting books on 31st December 2019.

| | |
|---|---|
| Total assets | sh 2 million |
| Net sales | sh 4 million |
| 9% preference share capital | Shs. 200,000 |
| Sh. 10 Equity Share capital | Shs. 400,000 |
| Market price of equity shares | Shs. 100 |
| Profit after tax 30%, | Shs. 500,000 |
| Equity dividend is to paid at 20% | |

**Required**

Compute

i. Return on assets (ROA) (2 marks)

ii. Dividend per share (DPS) (2 marks)

iii. Earnings per share (EPS) (2 marks)

iv. Price/Earnings (P/E) ratio (2 marks)

v. Net profit margin (2 marks)

**QUESTION TWO (20 MARKS)**

Macho Manufacturing Company provided the following information relating to the year ended 31st December 2017

| | | |
|---|---|---|
| Sales | | 10 000 000 |
| Inventory 1st January 2017 | | |
| | Finished goods | 389 000 |
| | Raw materials | 210 000 |
| | Working progress | 135 000 |
| Raw material- purchases | | 370 000 |
| Carriage inwards on raw materials | | 35 000 |
| Production machines | | 280 000 |
| Computers – administration | | 200 000 |
| Accumulated depreciation: | | |
| Production machines | | 50 000 |
| Computers- Administration | | 80 000 |
| Wage- Direct | | 180 000 |
| - Factory | | 145 000 |
| Royalties | | 70 000 |
| General factory expenses | | 310 000 |

| | |
|---|---|
| Factor power | 137 000 |
| Lighting | 75 000 |
| Salaries – administration | 440 000 |
| Salaries – salesmen | 300 000 |
| Sales commission | 115 000 |
| Insurance | 42,000 |
| Rent | 120 000 |
| Carriage outwards | 59 000 |
| General administrative expenses | 134 000 |
| Discount allowed | 48 000 |
| Bank charges | 23 000 |

**Additional information**

1. Inventory 31.12.2017

   Raw materials shs. 240,000

   work in process shs. 150,000

   finished goods shs. 400,000

   Market value of finished goods sh.9 500 000
2. Rent, insurance and lighting are to be apportioned in the ratio of 4:1 for factory and administration respectively
3. Provide for depreciation on production machines and Administration computers at 10% on cost.

**Required**

a) Production cost statement (manufacturing account) for the year ended 31st December 2017 (10 marks)

b) Income statement for the year ended 31st December 2017 (10 marks)

**QUESTION THREE (20 MARKS)**

A, B and C are in a partnership sharing profits and losses in the ratio of 4:3.1 as at 31st December 2016. They provided the following Balance Sheet

**ABC**
**Balance Sheet**
**As at 31st December 2016**

| | | | |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and machinery | | 80,000 | |
| Building | | 250,000 | |
| Furniture | | 90,000 | |
| Vehicle | | 180,000 | |
| | | 600,000 | |
| **Current assets** | | | |
| Stock | 120,000 | | |
| Debtors | 95,000 | | |
| Bank | 60,000 | 275,000 | |
| Current liabilities | | | |
| Creditors | 290,000 | | |
| Bills payable | 170,000 | (460,000) | (185,000) |
| Net assets | | | 415,000 |

**Financed by**

| | | |
|---|---|---|
| Capital accounts | | |
| A | | 100,000 |
| B | | 80,000 |
| C | | 70,000 |
| Reserves | 80,000 | |
| Loan from X | 85,000 | |
| | 415,000 | |

On 1st January 2017 C retired and X was admitted to the partnership under the following conditions

1. C's capital is to be kept in the partnership
2. X is to contribute shs. 80,000 as his capital. This is to be set off against his loan and be paid the balance
3. The following revaluations were also made:

   Building Shs. 290,00, plant and machinery Shs. 50,000

   Furniture Shs, 100,000, vehicle Shs. 165,000, stock shs. 100,000 , creditors shs. 300,000 and bills payable shs. 160,000
4. Goodwill is to be valued as shs. 120,000 and then be written off
5. The new profit sharing ratio will be 3:2:1 for A, B and X respectively.

**Required**

| | | |
|---|---|---|
| a) | Revaluation account | (4 marks) |
| b) | Partnerships capital account (in a columnar form) | (5 marks) |
| c) | Bank and goodwill accounts | (5 marks) |
| d) | Balance sheet after the admission of X | (6 marks) |

## QUESTION FOUR (20 MARKS)

Maisha sports club owns a restaurant**. T**he following information was provided for the year ended 31st December 2018.

| | **1.1.2018** | **31.12.2018** |
|---|---|---|
| | **Shs.** | **Shs.** |
| Sports equipment | 45 000 | 57 600 |
| Club furniture | 67 500 | 60 750 |
| Premises | 450 000 | 360 000 |
| Subscriptions advance | 1 800 | 1 080 |
| Subscriptions – unpaid | 4 050 | 3 150 |
| Restaurant wages - outstanding | 2 700 | 3 375 |
| Sports equipment repairs- unpaid | 5 400 | 3 870 |
| Insurance – prepaid | 720 | 360 |
| Refreshments stocks | 13 500 | 8 775 |
| Refreshments creditors | 19 440 | 8 640 |
| Restaurant debtors | 9 000 | 11 250 |
| Cash in hand | 15 300 | 21 600 |
| Bank overdraft | 25 560 | 24 030 |

**Receipt and payment**

**For the year ended 31st December 2018**

| | Shs. | | Shs. |
|---|---|---|---|
| Cash bal. b/f | 15 300 | Banks balance b/f | 25 560 |
| Restaurant receipts | 177 300 | Wages | 105 660 |
| Subscriptions | 225 000 | Electricity | 10 395 |
| Bank balance c/f | 24 030 | Printing | 77 625 |
| | | Insurance | 18 000 |
| | | Sports equipment | 27 000 |
| | | Repairs to sports equipment | 33 750 |
| | | Restaurant refreshments | 90 000 |
| | | Advertising | 8 820 |
| | | General expenses | 15 750 |
| | | Postage | 7 470 |
| | | Cash balance c/f | 21 600 |
| | 441 630 | | 441 630 |

**Additional information**

| | **1.1.2018** Shs. | **31.12.2018** Shs. |
|---|---|---|
| Sports equipment | 100,000 | 128,000 |
| Club furniture | 150,000 | 135,000 |
| Premises | 1000,000 | 800,000 |
| Subscriptions advance | 4000 | 2400 |
| Subscriptions – unpaid | 9,000 | 7,000 |
| Restaurant wages – unpaid | 6,000 | 7,500 |
| Repairs – unpaid | 12000 | 8600 |
| Insurance – prepaid | 1600 | 800 |
| Refreshments stocks | 30000 | 19,500 |
| Refreshments creditors | 43,200 | 19,200 |
| Restaurant debtors | 20,000 | 25,000 |

**Required**

a) Accumulated fund as at 1st January 2018 (3 marks)

b) Restaurant income statement as at 31st December 2018 (4 marks)

c) Income and expenditure account for the year 31st December 2018 (7 marks)

d) Statement of financial position as at 31st December 2018 (6 marks)

**QUESTION FIVE (20 MARKS)**

Nina company limited provided the following balances on 31st December 2018

| | Dr . | Cr. |
|---|---|---|
| Sh10, 80,000 ordinary shares | | 800,000 |
| 12% preference shares | | 600,000 |
| 8% debentures | | 400,000 |
| Sales and purchases | 300,000 | 1050,000 |
| Debtors and creditors | 227,000 | 56,000 |
| Provision for doubtful debts | | 5,000 |
| Returns | 50,000 | 20,000 |
| Insurance | 40,000 | |
| Salaries | 120,000 | |
| Building (cost 1400,000) | 1320,000 | |
| Plant and machinery (cost 350,000) | 280,000 | |
| Motor vehicle (cost 250,000) | 150,000 | |
| Directors fee | 25,000 | |
| Commission | 80,000 | 19 000 |
| Bad debts | 15,000 | |
| Bank | 280,000 | |
| Goodwill | 450,000 | |
| Discount | 38,000 | |
| Profit and loss | | 500,000 |
| Stock 1.1.2018 | 50,000 | |
| Vehicle expenses | 30,000 | |
| | **3450,000** | **3450,000** |

**Additional information**

1. Stock 31.12.2018
2. Shs. 2,000 of debtors were declared bad and written off; the provision is to be adjusted to 2.5% of the remaining debtors
3. Unpaid insurance is shs. 2,000; prepaid salaries were shs. 20,000
4. Corporation tax rate is at 30%
5. The directors have recommended
   - A transfer of shs. 2,000 to general reserves
   - Payment preference dividends
   - To pay shs. 0.20 per ordinary share

**Required**

a) Income statement for the year ended 31.12.2018 (12 marks)

b) Statement of financial position as at a 31.12.2018 (8 marks)