MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

2804/302: FINANCIAL ACCOUNTING

Date: 1/8/2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and any Other Two Questions

QUESTION ONE

(a) Explain four limitations of using ratios in analysing financial statements. (8 marks)

(b) The following information relates to Machakos golf club for the year ended 31 December 2014

2014	kshs	2014	kshs
1 jan bal b/d	72,500	General expenses	92,500
Canteen sales	400,000	Bank loan	120,000
Subscription	350,000	insurance	48,000
Entrance fees	188,500	Accounts payable-canteen	282,500
		Balance c/d	468,000
	1,011,000		1,011,000

Balances as at	**01.01.2014**	**31.12.2014**
	Ksh	**ksh**
Land and buildings	1500,000	1,500,000
Canteen accounts payables	375,200	465,500
Bank loan	400,000	?
Sports equipment	1,280,000	?
Canteen inventory	240,000	280,000
Subscription in arrears	27,600	22,600

Additional information

i) As at 31 December 2014
- An interest of 22% per annum on the bank loan is due
- Subscription paid in advance for year 2015 amounted to ksh 18,400
- Insurance due was ksh 12,000

ii) Sports equipment is depcreciated at the rate of 15% per annum

Prepare

a) Canteen trading account for the year ended 31 December 2014

b) Income and expenditure account for the year ended 31 December 2014

c) Balance Sheet as at that Date

(22 marks)

QUESTION TWO

(a) Explain four circumstances under which a partnership business may be dilssolved .

(8 marks)

(b) Mtwanga contractors has two contracts A and B . the following information was obtained from the books of accounts of the firm for the year ended 31 December 2013.

	A	B
	Ksh	Ksh
Contract price	3,500,000	3000,000
Cost to date	2,500,000	2,200,000
Extra contract costs incurred	350,000	122,500
Estimated cost to complete the contract	1,200,000	950,000
Cash received on work certified	1,800,000	2,000,000

Work certified (15/12/20013)	2,400,000	2,600,000
Completed work not certified	270,000	50,000
Date started	1-7-2012	

Additional information

(i) Profit to be made is determined using the policy of cash received in relation to work certified.

(ii) The contratee had agreed to pay for the extra contract cost in to the contract price.

Determine

(i) The total estimated profit or loss for each contract as at 31 December 2013

(ii) Calculate the profit or loss to be transferred to income statement on 31 December 2013

(iii) Advise the management on the viability of each contract. (12 marks)

QUESTION THREE

		2009			***2010***	
	Cost	**Deprec.**	**Net Book Value**	**Cost**	**Deprec.**	**Net Book Value**
	Sh.'000'	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**
Plant	200	80	120	220	100	120
Building	1,000	200	800	1,800	220	1,580
			920			1,700
Investments at						
Cost			1,000			1,600
Land			860			1,260
Stock			1,100			1,300
Debtors			800			1,000
Bank			60			-
			4,740			6,860
Ordinary shares at Sh.20 each			800			1,000
Share premium			240			280
Revaluation Reserve						400
Profit and Loss Account			500			500
10% Debentures			2,000			3,000
Creditors			800			1,200
Proposed Dividends			400			400
Bank						80
			4,740			6,860
Profit & Loss Account						
Sales			4,000			4,000
Cost of Sales			2,000			2,400

	2,000	1,600
Expenses	1,200	1,200
Dividends	800	400
	400	400
Balance b/f	400	-
Balance c/f	100	500
	500	500

Required:

Calculate for Mvita Ltd. for 2009 and 2010 the following ratios:
Return on capital employed;
Debtors turnover;
Creditors turnover;
Current ratio;
Quick assets (acid test) ratio;
Gross profit percentage;
Net profit percentage;
Dividend cover;
Gearing ratio.

Using the summarised accounts given and ratios you have just prepared, comment on the financial position and prospects of Mvita Ltd. **(Total: 20marks)**

QUESTION FOUR

The treasurer of Watembezi Sports Club has presented the following information for the year ended 31 October 1998:

		Sh.		Sh.
Receipts 1.11.97			Payments:31.10.98	
Balance		748,000	Club extension	650,000
Subscriptions	1996/97	158,000	Dinner dance expenses	350,000
	1997/98	2,540,000	New equipment	300,000
	1998/99	67,000	Bar purchases	726,000
Dinner Dance		598,000	Salaries and wages	454,000
Bar Sales		932,000	Other staff expenses	129,000
Harambee Donations		529,000	Coach fees	260,000
Seminar rentals		158,000	Life saver fees	184,000
Investment income		247,000	Investment purchased	450,000
Sale of old equipment (cost)		62,000	General expenses	158,000
			Repairs and maintenance	296,000
			Balance c/d	2,082,000
		6,039,000		6,039,000

	31.10.97	**31.10.98**
Clubhouse	2,450,000	?
Equipment at cost	325,000	?
Provision for depreciation	95,000	?
Furniture and fittings at cost	340,000	?
Provision for depreciation	125,000	?

Subscription arrears - 1996/97	185,000	?
- 1997/98		324,000
Subscriptions prepaid - 1997/98	124,000	?
	54,000	?
Bar stock	254,000	329,000
Accrued salaries and wages	23,000	28,000
Unpaid dinner dance tickets		29,000
Investments	2,550,000	?
Bar purchase creditors	168,000	234,000
Unpaid club extension works		85,000
Club extension fund	250,000	?

Notes:

1) The Harambee donations were for the extension of the club. The funds shall remain in this account until the works, are completed when' the balance will be transferred to the accumulated fund.

2) The depreciation on fixed assets is at 10% and 15% on cost on furniture and fittings; and equipment respectively.

3) Equipment which had cost Sh.25,000 was sold on credit for Sh.14,000 to a member who owed the club the money at the end of the year. The provision for depreciation on this equipment was Sh.7,000. Another equipment sold for cash had an accumulated provision for depreciation of Sh.19,000.

4) Audit fees of Sh.50,000 should be provided.

5) Subscription in arrears are written-off after 12 months.

Required:

a) Income and expenditure account for the year ended 31 October 1998
b) Balance as at 31 October 1998

(20 marks)

QUESTION FIVE

Orion and Pegasus are two sole traders who decide to amalgamate their businesses into a partnership as from 1 January 2001.

Their balance sheets at 31 December 2000 are as follows:

	Orion		**Pegasus**	
	Sh.'000	**Sh.'000**	**Sh.'000**	**Sh.'000**
NON CURRENT ASSETS		780		590
CURRENT ASSETS				
Inventory	380		440	
Accounts receivable	290		250	
Prepayments	40		30	
Cash at bank	420	1,130	-	720
		1,910		1,310

Capital accounts		1,300		800
Non – current liabilities				
Loan - Nimrod		300		
CURRENT LIABILITIES				
Accounts payable	280		310	
Accruals	30		20	
Bank overdraft	-	310	180	510
		1,910		1,310

The agreed terms of the amalgamation are:

(1) Goodwill, which does not appear in the records of either business, is valued at:

	Sh.'000
Orion	200
Pegasus	180

Goodwill is not to appear in the opening balance sheet of the partnership.

(2) Profit-sharing ratios in the partnership are agreed as :

Orion	60%
Pegasus	40%

(3) Land included in Orion.s non-current assets at Sh.100,000 to be revalued to Sh.130,000.

(4) Orion and Pegasus did not transfer their motor cars to the new business but retained them personally. The motor cars are currently included in their non-current assets at their book value as follows:

	Sh.'000
Orion	18
Pegasus	16

(5) Orion's loan from Nimrod was repaid by Orion on 31 December 2000.

(6) The remaining balance of Orion's cash, and the overdraft of Pegasus, were combined into a single bank account for the partnership.

(7) All other assets and liabilities of the businesses were brought into the partnership at their stated book value.

Required:

(a) Show the capital accounts of the two traders to record the closure of their businesses. (5 marks)

(b) Prepare the opening balance sheet of the new partnership of Orion and Pegasus as at 1 January 2001. (11 marks)

(c) Explain why asset revaluations and a goodwill adjustment may be needed when a partner retires or dies, a new partner is admitted or there is a change in profit-sharing ratios. (4 marks)