



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BAC 4102: INTRODUCTION TO ACCOUNTING II

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Six printed pages

QUESTION 1 (Compulsory)

- a) i) Discuss the **THREE** components of cash flows. **(6 marks)**
ii) List **FOUR** limitations of ratio analysis. **(4 marks)**
- b) The following trial balance was extracted from the books of TUM TUM Ltd as at 31st December 2013.

	Sh. '000'	Sh. '000'
Purchases and sales	20,640	35,200
Carriage inwards	580	
Carriage outwards	1,360	
Discounts	560	1,460
Salaries and wages	5,600	
Insurance	2,210	

Directors salaries paid	2,450	
Interim dividend paid	600	
Fixtures and fitting at cost	4,080	
Provision for depreciation on fixtures and Fittings (1 st January 2014)		1,660
Motor vehicles at cost	2,440	
Provision for depreciation On motor vehicles (1 st January 2010)		1,000
Share capital (sh. 10 par values)		6,000
Inventory (1 st January 2013)	6,300	
Accounts receivables and payables	9,200	4,200
Retained profit (1 st January 2013)		2,140
Share premium account		2,500
Bank balance		840
General reserves		<u>1,000</u>
	<u>56,020</u>	<u>56,020</u>

Additional information:

- i) At 31st December 2013 wages owing amounted to sh. 120,000 and prepaid insurance were sh. 80,000.
- ii) Depreciate fixtures and fittings by 10% per annum on cost and motor vehicles by 25% per annum on reducing balance method.
- iii) Closing inventory was valued at 7,200,000.
- iv) A final dividend of sh. 3 per share is proposed to be paid.
- v) Corporation tax to be charged at 30% on reported profit for the year.
- vi) Allowances for doubtful debts to be made at 2.5% of the accounts receivable.

Required:

- i) Income statement for the year ended 31st December 2013.
- ii) Statement of financial position as at that date.

(20 marks)

QUESTION 2

The following balances were extracted from the books of Udungu Ltd a furniture manufacturing company, as at 30th April 2014.

	Sh. '000'
Factory machinery (cost)	28,000
Office equipment (cost)	2,000
Accumulated depreciation (1 st May 2013):	
Factory machinery	5,000
Office equipment	800
Trade receivables	15,000
Trade payables	16,000
Cash and bank balances	2,300
Inventories (1 st May 2013):	
Raw materials	4,000
Work in progress	16,400
Finished goods	9,000
Carriage inwards	1,200
Carriage outwards	700
Purchase of raw materials	84,000
Electricity	3,000
Rent and rates	6,600
Factory wages	19,900
Office salaries	5,200
Sales commission	1,400
Sales of finished goods	140,000
Ordinary share capital	30,000
Retained earnings	5,000
Directors emoluments	9,100

Additional information:

1. Inventories at 30th April 2014:
2. Depreciate factory using straight line method over useful life of seven years without scrap value and office equipment at 25% on reducing balance method.
3. Accrued wages amounted to sh. 600,000 and accrued office salaries are sh. 100,000.
4. Electricity is to be apportioned between the factory and office in the ratio of 4:1 respectively while rent and rates is to be apportioned between factory and office in the ratio 3:1 respectively.

Required:

Manufacturing, Trading and Profit and Loss account for the year ended 30th April 2014.

QUESTION 3

Lumumba Thoya intends to invest in Dyco Ltd. He has obtained the financial statements below from which he is seeking advise on whether to invest in Dyco Ltd or not.

	2012	2013
	Sh. '000'	Sh. '000'
Non current assets	28,400	45,600
Inventory	11,000	13,000
Accounts receivable	8,000	10,000
Bank	<u>200</u>	=
	<u>47,600</u>	<u>68,600</u>
Ordinary share capital (20/- each)	10,600	16,800
Retained profit	9,000	5,000
10% debenture	16,000	30,000
Accounts payable	8,000	12,000
Proposed dividend	4,000	4,000
Bank	=	<u>800</u>
	<u>47,600</u>	<u>68,600</u>
Income statement:		
Sales	40,000	40,000
Cost of sales	<u>(20,000)</u>	<u>(24,000)</u>
Gross Profit	20,000	16,000
Operating expenses	(10,400)	(9,000)
Interest	<u>(1,600)</u>	<u>(3,000)</u>
Net profit	8,000	4,000
Less: Dividend	<u>(4,000)</u>	<u>(4,000)</u>
Retained profit	<u>4,000</u>	<u>0</u>

Market price per share is sh. 32

For 2012 and sh. 40 for 2013

Required:

For each of the years calculate

- Gross Profit margin and net profit margin.
- Debtors turnover and number of days of debtors
- Current ratio and acid test ratio.
- Dividend cover and earnings per share
- Debt/equity ratio and return on capital employed.

(20 marks)

QUESTION 4

Sakwa has kept records of his business transactions in a single entry forms. His bank account for the year ended 31st December 2013 is as follows

	Sh.		Sh.
Balance at 1.1.2013	18,400	Cash withdrawn from bank	252,000
Receipts from debtors	1,482,000	Trade accounts payable	126,8000
Loan from Fungu	500,000	Rent	64,000
		Stationery	38,000
		Drawings	228,000
		Telephone	16,200
		Balance c/d	<u>134,200</u>
	<u>2,000,400</u>		<u>2,000,400</u>

Cash sales amounted to sh. 30,800 of which Sundry expenses sh. 3,600 and trade accounts payable of sh. 26,200 were paid.

The following information is also available.

	31.12.2012	31.12.2013
Cash in hand	3,880	5,440
Trade accounts payable	146,000	162,000
Accounts receivable	184,000	228,000
Stationery paid in advance	6,800	8,000
Van at valuation	110,000	92,000
Inventory	484,000	542,000

Required:

- a) Income statement for the year ended 31.12.2013.
- b) Statement of financial position as at 31st December 2013.

(20 marks)

QUESTION 5

Butera and Waliaula share profits and losses in the ratio 3:2 respectively. Their trial balance as at 31st December 2013 was as follows:

	Dr.	Cr.
Sales		334,000
Purchases	206,000	
Inventory 31.12.2012	71,000	
Salaries and wages	54,000	
Bad debts	1,500	
Allowances for doubtful:		
Debts at 31.12.2012		900
General expenses	4,800	
Computers at cost	8,000	
Office equipment at cost	5,500	
Provision for depreciation:		
Computers		3,600
Office equipment		2,900
Accounts payable		36,000
Accounts receivable	51,000	
Cash at bank	9,500	
Drawings: Butera	47,000	
Waliuaula	36,000	
Current accounts:		
Butera		5,900
Waliuaula		11,000
Capital: Butera		60,000
Waliualala		40,000
	<u>494,300</u>	<u>494,300</u>

Additional information:

1. Inventory at 31/12/2013 sh. 74,000
2. Prepaid general expenses sh. 2,000
3. Increase allowances for bad debts to sh. 1,400.
4. Salaries: Butera sh. 18,000 and Waliaula sh. 14,000 not yet recorded.
5. Interest on drawings: Butera sh. 500 Waliaula sh. 300.
6. Market on capital at 8 per cent
7. Non-current assets to be depreciated at 10 per cent straight line method.

Required:

- a) Income statement for the year ended 31st December 2013.
- b) Statement of financial position as at 31.12.2013.

(20 marks)