TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION

BACHELOR OF BUSINESS ADMINISTRATION

BAC 4102: INTRODUCTION TO ACCOUNTING II

END SEMESTER EXAMINATIONS

SERIES: JANUARY/APRIL 2016

TIME: 2HOURS

INSTRUCTIONS:

- **This paper consists of Five questions**
- **Answer question one (compulsory) and any other two questions**
- **Do not write on the question paper**
- **Marks will be awarded for correct, clear and logical answers**

QUESTION ONE

a) Distinguish between authorized and issued share capital (4marks)

b) Highlight the importance of using accounting standards as the basis for preparing financial statements (6marks)

c) The following trial balance was extracted from the books of Maembe ltd, a manufacturing company as at 30th june 2015

	Sh. ''000''	Sh.''000''
Ordinary shares of sh 100 each		300,000
10% preference shares of sh 50 each		200,000
Retained profits as at 1 july 2014		450,000
Land	580,000	
Factory building	120,000	
Factory plant	80,000	
Delivery vans	60,000	
Inventory as at 1 july 2014		
Raw materials	50,000	
Work in progress	30,000	
Finished goods	120,000	
Sales		1,081,020

Sales returns	3,000	
Raw materials purchased	600,000	
Factory wages	7,200	
Office wages	436	
Electricity	9,500	
Factory fuel	10,000	
Insurance	350	
Water	40	
Salaries	37,000	
Allowance for doubtful debts		20
Trade receivables and payables	45,000	6,000
Bank	357,000	
Cash	3,000	
computers	300,000	
Provision for depreciation		
Factory building		12,000
Factory plant		36,000
Delivery vans		16,000
Computers		6,000
Bad debts	30,000	
10% debentures		350,000
Debenture interest	15,000	
Discounts received		36,000
Investment	36,000	
Investment income		486
	2,493,526	2,493,526

Additional information:

1. The allowance for doubtful debts is to be maintained at sh 448, 000 and an additional bad debt of sh 200,000
2. Inventory as at 30 june 2015 was valued as follows:

	Sh.
Raw materials	20,000,000
Work in progress	40,000,000
Finished goods	90,000,000

3. Accrued expenses as at 30 june 2015 were electricity sh. 300,000 and water sh 5,000
4. Prepaid insurance amounted to sh 50,000
5. Depreciation is to be provided on cost as follows:

Asset	rate per annum
Factory building	2%
Factory plant	10%

Delivery van 20%
Computers 30%

6. Expenses are to be apportioned between factory, office and selling and distribution as follows:

	Factory	office	selling and distribution
Electricity	80%	20%	-
Salaries	10%	50%	40%
Insurance	60%	10%	30%
Water	90%	10%	-
Deprecition: delivery van	-	-	100%
Computers	50%	50%	-

7. The directors proposed to pay preference dividends, a final ordinary dividend of sh 5 per share and to transfer sh 400,000 from retained profits to general reserves.
8. Corporation tax is to be provided for at sh 1,050,000
9. Debentures were issued in the year ended 30 june 2012

Required:

a) Manufacturing account and income statement for the year ended 30 june 2015 (12marks)
b) Statement of financial position as at 30 june 2015 (8marks)

QUESTION TWO

a) State four limitations of using accounting ratios to evaluate performance of a business enterprise
(4marks)
b) The summarized financial statements of Pumwani company limited for the year ended 30th june 2014 and 30 june 2015 were as follows:

Income statement for the year ended 30 june

	2014	2015
	Sh. ''000''	Sh. ''000''
sales	240,000	320,000
Cost of sales	(180,000)	(230,400)
Gross profit	60,000	89,600
Operating expenses	(20,000)	(29,600)

Profit from operations	40,000	60,000
Interest payable	(4,000)	(8,000)
Net profit before tax	36,000	52,000

Statement of financial position as at 30 june

	2014	2015
	Sh. ‘’000’’	Sh. ‘’000’’
Non-current assets at cost	280,000	288,000
Accumulated depreciation	(70,000)	(43,200)
	210,000	244,800
Current assets		
inventory	72,000	80,000
Trade receivables	80,000	84,000
Prepaid expenses	16,000	15,200
	168,000	179,200
Total assets	378,000	424,000
	2008	2009
	Sh. ‘’000’’	Sh.’’000’’
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh 20 each	160,000	160,000
Share premium	22,000	22,000
General reserves	32,000	36,000
Retained earnings	28,000	34,000
	242,000	252,000
Long term liabilities		
10% debentures	40,000	80,000
Current liabilities		
Trade payables	64,000	68,000
Bank overdraft	32,000	24,000
	136,000	172,000
Total equity and liabilities	378,000	424,000

Required:

Calculate the following ratios for the year 2014 and 2015:

i. Gross profit margin (2marks)
ii. Return on equity (2marks)
iii. Return on capital employed (2marks)
iv. Current ratio (2marks)
v. Quick ratio (2marks)
vi. Gearing ratio (2marks)

c) Briefly comment on the trend of profitability and liquidity ratios computed in (b) above

(4marks)

QUESTION THREE

a) Briefly explain the importance of a statement of cash flows to a business enterprise (4marks)

The senior accountant of Ukweli ltd availed the following statements of financial position for the year ended 30 september 2014 and 2015

Statement of financial position as at 30 september

	2009	2008
	Sh. ‘’000’’	Sh. ‘’000’’
Assets		
Non-current assets		
Freehold property	190,000	110,000
Plant and machinery	92,000	70,000
Motor vehicles	50,000	56,000
	332,000	236,000
Current assets		
inventory	56,000	40,000
Trade receivables	40,000	48,000
Cash and cash equivalents	-	6,000
	96,000	94,000
Total assets	428,000	330,000
Equity and liabilities:		
Capital and reserves:		
Ordinary share capital (sh 20 each)	160,000	100,000
Share premium	40,000	30,000
Revaluation reserve	30,000	50,000
Retained earnings	36,000	30,000
	266,000	210,000
Non-current liabilities		
8% debentures	72,000	60,000
Current liabilities		
Trade payables	46,000	30,000
Interest payable	18,000	12,000
Current tax	12,000	10,000
Cash and cash equivalents	8,000	-
Proposed dividends	6,000	8,000
	90,000	60,000
Total equity and liabilities	428,000	330,000

Additional information:

1. Freehold property was revalued upwards by sh 20,000,000
2. Additional land was acquired at sh 80,000,000
3. Bonus shares of sh 40,000,000 were issued at par during the year utilizing the revaluation reserve
4. Interest expense charged to the income statement for the year amounted to sh. 16,000,000
5. Depreciation on plant and machinery amounting to sh 8,000,000 was provided in the income statement for the year
6. Plant with a net book value of sh 16,000,000 was sold at a profit of sh 6,000,000 during the year
7. During the year tax amounting to sh 12,000,000 was paid
8. Total dividends for the year amounted to sh 10,000,000
9. The profit after tax for the year amounted to sh 16,000,000

   Required :

   Statement of cash flows (in conformity with IAS 7- cash flow statements) for the year ended 30 sepember 2009 (16marks)

QUESTION FOUR

Mellen and Margret are in partnership sharing profits and losses equally. The following is their trial balance as at 30th June 2015

	Dr	Cr
	f	f
Buildings (cost f 75 000)	50 000	
Fixtures at cost	11 000	
Provision for depreciation: fixtures		3 300
Debtors	16 243	
Creditors		11 150
Cash at bank	677	
Stock at 30th June 2014	41 979	
Sales		123 650
Purchases	85 416	
Carriage outwards	1 288	
Discounts allowed	115	
Loan interest	4 000	
Office expenses	2 416	
Salaries and wages	18 917	
Bad debts	503	
Provision for bad debts		400
Loan from J King		40 000
Capitals: Mellen		35 000
Margret		29 500
Current accounts: Mellen		1 306
Margret		298

Drawings: Mellen	6 400	
Marshal	5 650	
	244 604	244 604

Additional information

1. Stock, 30th June 2015 f 56 340
2. Expenses to be accrued: office expenses f 96; wages f 200
3. Depreciate fixtures 10% on reducing balance basis, buildings f 1 000
4. Reduce provision for bad debts to f 320
5. Partnership salary: f 800 to Mellen. Not yet entered.
6. Interest on drawings: Mellen f 180; Margret f 120
7. Interest on capital account balances at 10%.

Required:

Prepare a trading and profit and loss appropriation account for the year ended 30th june 2015, and a balance sheet as at that date. [20 marks]

QUESTION FIVE

a) Summarize the components of published financial statements (10marks)

b) Distinguish between tangible intangible assets, citing relevant examples (4marks)

c) Briefly explain how tangible assets and intangible assets are measured:

  i. On acquisition

  ii. After acquisition