



TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
UNIVERSITY EXAMINATIONS
MAY 2016 SERIES

BAC 4102 Introduction to accounting II

BACHELOR OF COMMERCE/ BUSINESS ADMINISTRATION

TIME: 2 HOURS.

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

Q1. Nando, Herry and Gerry are in partnership sharing profits and losses in the ratio of 3:2:1 respectively.

The following trial balance of the partnership as at 31 December 2015.

Capital Accounts	Sh.	Sh.
Nando		360,000
Herry		240,000
Gerry		120,000
Current Accounts		
Nando		14,000
Herry	10,000	
Gerry		
Stock as 1 January 2015	400,000	16,000
Bank balance	50,000	
Debtors	460,000	
Bad debts provision at 1 January 2015		
Creditors		20,000
Depreciation at 1 January 2015		700,000
Land and Buildings		
Motor vehicles		
Drawings		

Nando	80,000	
Herry	60,000	
Gerry	60,000	
Land and Building at Cost	1,200,000	
Motor vehicle at Cost	400,000	
Office expenses	80,000	
Purchases	1,700,000	
Rates	80,000	
Sales		3,000,000
Selling expenses	<u>280,000</u>	
	<u>4,860,000</u>	<u>4,860,000</u>

You have also been provided with the following information.

1. Stock at 31 December 2015 sh. 600,000
2. Fixed assets are written off at the following rates:
Land and Building 5% per annum at cost
Motor vehicles 20 % per annum on cost
3. Rates prepaid at 31 December 1998 sh. 40,000
4. Bad debts amount to sh. 10,000 were to be written off and bad debts provision to be adjusted to 5% of the outstanding debtors at 31 December 2015.
5. At 31 December 2015 sh. 35,000 was outstanding in respect of selling expenses.
6. According to the partnership agreement
 - Gerry is to get salary of sh.120,000 per annum.
 - Interest of 10% per annum is to be allowed on the partners capital accounts balances.
 - No interest is to be allowed on partners current accounts and no interest is to be charged on drawings.

Required:

- a. The partners' trading, profit and loss and appropriation account for the year ended 31 December 2015.
- b. Partners current accounts for the year ended 31 December 2015 and bring down the balances at 1 January 2009.
- c. The partnership balance that as at 31 December 2015.

(30marks)

Q2. The following information was extracted from the records of Wadigo Manufacturers during the year ended 31 December 2008.

Stocks on 1 January 2008	Shs.	
Raw materials		3,000

Work in progress	1,000
Finished goods	4,500
Stocks 31 December 2008	
Raw materials	1,500
Working progress	2,500
Finished goods	3,600
Carriage on raw materials	2,750
Sales	80,000
Factory rent and Rates	250
Factory heat, light and power	1,200
Depreciation on Factory plant	2,800
Travelers salaries	5,500
Advertising	1,250
Office rent and rates	300
Carriage outwards	700
Office salaries	3,500
Purchase of raw materials	50,000
Direct wages	7,000
Plant repairs	210
Factory expenses	75

Required:

- Prepare the Manufacturing Account and
- The Trading, Profit and Loss Account for the year ended 31 December 2008.

(20marks)

Q3. (a).The trial balance extracted from the books of Charoro Ltd at 31 December, 2015 was as follows:

	Kshs.	Kshs.
Share capital		100,000
Profit and loss account 31 December 2015		34,280
Freehold premises at cost	65,000	
Machinery at cost	55,000	
Provision for depreciation on machinery as at 31 December 2015.		15,800
Purchases	201,698	
General expenses	32,168	
Wages and salaries	54,207	
Rent	4,300	
Lighting expenses	1,549	
Bad debts	748	
Provision for doubtful debts as at 31 December 2015		861
Debtors	21,784	

Creditors		17,493
sales		361,810
Stock in trade 31 December 2015	25,689	
Bank balance	<u>23,101</u>	<u> </u>
	<u>485,244</u>	<u>485,244</u>

You are given the following additional information:

- (i). The authorized and issued share capital is divided into 100,000 shares of shs.1 each.
- (ii). Stock in trade at 31 December 2016, shs.29, 142.
- (iii). Wages and salaries due at 31 December 2016 amounted to shs.300.
- (iv). Rent paid in advance at 31 December 2016 amounted to shs.300.
- (v). A dividend of shs.10, 000 is proposed for 2016.
- (vi). The provision for doubtful debts is to be increased to shs.938.
- (vii). A depreciation charge is to be made on machinery at the rate of 10 per cent per annum on cost.

Required:

- (i). The trading Profit and Loss Account for the year ended 31 December 2016. **(8 Marks)**
 - (ii). A balance sheet as at that date. **(6 Marks)**
- (b). State the main features distinguishing the final amounts of a partnership from those of a limited liability company. **(6 Marks)**
(Total: 20 Marks)

Q4.The following is a summary of the Trading Account, Profit and Loss Account and Balance Sheet of a wholesaler for the year to 31st December 2015, viz:

<u>Trading Account</u>			
	kshs		kshs
Stock 1 January	3,800	Sales	40,000
Net Purchases	29,200		
	33,000		
Less Stock 31st Dec.	4,200		
Cost of Sales	28,800		
Gross Profit	11,200		
	40,000		40,000
 <u>Profit and Loss A/C</u> 			
Administration		Gross Profit	11,200
Expenses	5,400		
Selling & Distribution			

Expenses	1,300	
General & Financial Expenses	300	
Net Profit	4,200	
	11,200	11,200

(a). Calculate suitable accounting ratios defining their meaning and significance for the following:

- (i). Stock Turnover;
- (ii). Gross Profit: Expenses: Net Profit, on Turnover;
- (iii). Working Capital Ratio;
- (iv). Debtors Turnover: Creditors Turnover.

(b). State what other figures or data you would require in order to comment effectively on the business results and financial position.

c) What are the limitations of accounting ratios.

(20marks)

Q5. It is said that the objective of financial statements is to provide information about the financial performance and financial adaptability of an enterprise that is useful to a wide range of users.

Required:

List FIVE potential users of company financial statements, and briefly explain for each why they need information about the company.