TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF COMMERCE

HBC 2107: INTRODUCTION TO ACCOUNTING I

END OF SEMESTER EXAMINATIONS

SERIES: AUGUST 2013

TIME: 2 HOURS

INSTRUCTIONS:

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Seven printed pages

QUESTION 1 (Compulsory)

Mr.Smuel Nzioka has given you the following balances extracted from his books as at 30th September,1986:

	STORE A		STORE B	
	Sh.	**Sh.**	**Sh.**	**Sh.**
Sales		80,000		120,000
Less cost of goods sold:				
Opening stock	25,000		22,500	
Add purchases	50,000		91,000	
	75,000		113,500	
Less closing stock	15,000	60,000	17,500	96,000
Gross Profit		20,000		24,000
Less depreciation	1,000		3,000	
Other expenses	9,000	10,000	6,000	9,000
Net Profit		**10,000**		**15,000**

Balance sheets as at 31.12.2012

	STORE A		STORE B	
	Sh.	**Sh.**	**Sh.**	**Sh.**
Fixed Assets:			20,000	
Equipment at cost	10,000	2,000	6,000	14,000
Less depreciation todate	8,000			
Current Assets:				
Stock	15,000		17,500	
Debtors	25,000		20,000	
Bank	5,000		2,500	
	45,000		40,000	
Less current liabilities				
Creditors	5,000	40,000	10,000	30,000
		42,000		**44,000**
Financed by:				
Capitals		38,000		36,000
Balance as start of year		10,000		15,000
Add net profit		48,000		51,000
Less Drawings		6,000		7,000
		42,000		**44,000**

Required:

a) Calculate the following ratios:
   i) Gross Profit as a percentage of sales
   ii) Net Profit as percentage of sales
   iii) Expenses as percentage of sales
   iv) Stock turn
   v) Rate of return of net profit on capital employed (use the average of capital account for this purpose)
   vi) Current ratio
   vii) Acid test ratio
   viii) Debtor/sale ratio
   ix) Creditor/purchase ratio **(18 marks)**

b) Drawing upon all your knowledge of accounting comment upon the differences, and similarities of the accounting ratios for A and B. Which business seems to be the most efficient? Give reasons. **(12 marks)**

QUESTION 2

Mandela and Mwasera are in partnership sharing profits and losses equally. The following is their trial balance as at 30th June 2012:

	Dr. Sh.	Cr. Sh.
Buildings (cost sh. 7,500,000)	5,000,000	
Fixtures at cost	1,100,000	
Provision for depreciation: Fixtures		330,000
Debtors	1,624,300	

Creditors		1,115,000
Cash at bank	67,700	
Stock at 1.7.2011	4,197,900	
Sales		12,365,000
Purchases	8,541,600	
Carriage outwards	128,800	
Discounts allowed	11,500	
Loan interest: Equity bank	400,000	
Office expenses	241,600	
Salaries and wages	1,891,700	
Bad debts	50,300	
Provision for bad debts		40,000
Loan from Equity bank		4,000,000
Capitals: Mandela		3,500,000
Mwasera		2,950,000
Current accounts: Mandela		130,600
Mwasera		29,800
Drawings: Mandela	640,000	
Mwasera	565,000	
	24,460,400	**24,460,400**

Additional information:

i) Stock as at 30th June 2012 sh. 5,634,000
ii) Expenses to be accrued: Office expenses sh. 9,600; wages sh. 20,000
iii) Depreciate fixtures 10% on reducing balance bases, buildings sh. 100,000
iv) Reduce provision for bad debts to sh. 32,000
v) Partnership salary: sh. 80,000 to Mandela not yet entered
vi) Interest on drawings: Mandela sh. 18,000; Mwasera sh. 12,000
vii) Interest on capital account balances at 10%

Required:

a) Prepare a trading and profit and loss account for the year ended 30th June 2012, and **(12 marks)**
b) A balance sheet as at that date. **(8 marks)**

QUESTION 3

The following trial balance is extracted from the books of Kilifi Ltd as at 31st December 2012:

	Dr Sh. '000'	Cr. Sh. '000
Bank	8,390	
General reserve		5,000
Share premium account		14,000
Interim ordinary dividend paid	3,500	
Profit and loss account 31.12.2011		16,940
Sales		98,200
Purchases	53,910	
Carriage inwards	1,620	
Salaries and wages	9,240	
Director's remuneration	6,300	
Rates and insurance	2,930	
General expenses	560	

Debenture interest	1,500	
Debtors	18,610	
Creditors		11,370
Stock 1.1.2012	22,690	
Provision for depreciation on equipment 1.1.2012		2,400
Provision for depreciation on motors 1.1.2012		5,160
Motor vehicles at cost	17,200	
Equipment at cost	8,000	
Buildings at cost	95,000	
Goodwill at cost	15,500	
10% preference share capital		20,000
Ordinary share capital		70,000
10% debentures (repayable 2016)		30,000
	273,070	**273,070**

The following adjustments are needed:

i) Stock at 31.12.2012 was sh. 27,220,000

ii) Depreciate motors sh. 3,000,000; Equipment sh. 1,200,000

iii) Accrue debenture interest sh. 1,500,000

iv) Provide for preference dividend sh. 2,000,000 and final ordinary dividend of 10%.

v) Transfer sh. 2,000,000 to General reserve

vi) Write off goodwill by sh. 3,000,000

vii) Authorized share capital is sh. 20,000,000 in preference shares and sh. 100,000,000 in ordinary shares.

viii) Provide for corporation tax sh. 5,000,000

Required:

a) Prepare a trading and profit and loss account for Kilifi Ltd and, **(12 marks)**

b) A balance sheet as at 31st December 2012 of Kilifi Ltd. **(8 marks)**

QUESTION 4

David Sambu is a manufacturer. His trial balance as at 31st December 2012 is as follows:

	Dr. **Sh.**	**Cr.** **Sh.**
Delivery van expenses	250,000	
Lighting and heating: Factory	285,900	
Office	111,000	
Manufacturing wages	4,547,000	
General expenses: office	381,600	
Factory	564,000	
Salesmen: Commission	786,000	
Purchase of raw materials	3,905,400	
Rent: Factory	480,000	
Office	220,000	
Machinery (cost sh. 5,000,000)	3,250,000	
Office equipment (cost sh. 1,500,000)	1,100,000	
Office salaries	628,500	
Debtors	2,837,000	
Creditors		1,945,000
Bank	1,333,700	
Sales		13,650,000

Premises (cost sh. 5,000,000)	4,000,000	
Stocks at 31st December 2011		
Raw materials	856,500	
Finished goods	2,948,000	
Drawings	856,000	
Capital		13,745,600
	29,340,600	**29,340,600**

Additional information:

i) Stocks at 31st December 2012, raw materials sh. 905,000; finished goods sh. 3,120,000. There is no work in progress.

ii) Depreciate machinery sh. 200,000; office equipment sh. 150,000; premises sh. 100,000

iii) Manufacturing wages due but unpaid at 31st December 2012 sh. 30,500; office rent prepaid sh. 10,800.

Required:

a) Prepare the manufacturing, Trading and Profit and Loss Account for the year ended 31st December 2012 and **(12 marks)**

b) A balance sheet as at that date. **(8 marks)**

QUESTION 5

The following receipts and payments account for the year ended 31st December 2012 for the Kwale Farmers Club has been prepared by the club's treasurer:

RECEIPTS	**Sh.**	**PAYMENTS**	**Sh.**
Opening bank balance	876,000	National Gardening show:	
Seed sales	1,684,000	Purchase of tickets and	
National Gardening show:		Brochures	3,600,000
Ticket sales to non members	400,000	Seed purchases	1,900,000
Lawn mower sales	3,800,000	Lawn mower purchases	5,400,000
Subscriptions received	7,190,000	Coaches to National	
Closing balance	270,000	Gardening Show	490,000
		Club premises – rent	500,000
		Gardening magazines	
		For members' use	390,000
		Secretarial expenses	940,000
		Proposed new club:	
		Building plans – architect's	
		fees	1,000,000
	14,220,000		**14,220,000**

The club's executive committee has now decided that members should receive an income and expenditure account for the year ended 31st December 2012 and a balance sheet as at that date.

Accordingly, the following information has been given:

i) Club assets and liabilities, other than bank balances or overdrafts include:

	31.12.2011	31.12.2012
	Sh.	**Sh.**
Plot of land for proposed new club Building, bought 1.1.2008 for Sh. 2,000,000 current market value	5,000,000	5,500,000
Stocks of seeds, at cost	250,000	560,000
Debtors – lawn mower sales	400,000	1,370,000
Membership subscriptions Received in advance	240,000	390,000
Creditors – lawn mower supplier	800,000	170,000
- Seed growers	110,000	340,000

ii) The club sells lawn mowers at cost price to members; however the club never holds any stock of unsold lawn mowers.

iii) Membership benefits include a ticket and transport to the National Gardening show.

Required:

a) Prepare the club's accumulated fund as at 1st January 2012. **(4 marks)**

b) Prepare the club's income and expenditure account for the year ended 31st December 2012. **(8 marks)**

c) Prepare the club's balance sheet as at 31st December 2012. **(8 marks)**