



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

SCHOOL OF BUSINESS & ECONOMICS

BACHELOR OF COMMERCE

COURSE CODE: BCM 1206

COURSE TITLE: FINANCIAL ACCOUNTING 1.

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 5 printed pages. Please turn over

QUESTION ONE

Mrs Mariidadi owns and manages a small manufacturing business. The following balances have been extracted from her books of account at 31 January 2016:

	Dr (shs)	Cr (shs)
Capital at 1 February 2015		171,120
Accounts payable		86,000
Bank and cash balance	5,400	
Accounts receivable	92,000	
Drawings	60,000	
Administration expenses	150,360	
Advertising expenses	12,000	
Factory direct wages	60,000	
Factory indirect wages	24,000	
Factory power	36,000	
Furniture and fittings (all offices)	18,400	
Heat and light	16,000	
Plant and equipment	276,800	
Motor vehicle (used by salesmen)	144,000	
Plant hire	4,000	
Provision for bad debts		3,200
Provision for depreciation 1 February 2015:		
– Furniture and fittings		9,200
– Plant and equipment		138,400
– Motor vehicle		24,000

Raw material purchases	228,000	
Rent rates	20,000	
Sales		829,440
Selling and distribution expenses	66,400	
Inventories at cost, 1 February 2015:		
– Raw materials	8,000	
– Work in progress	16,000	
– Finished goods	<u>24,000</u>	<u> </u>
	<u>1,261,360</u>	<u>1,261,360</u>

The following additional information is provided:

- (i) Accruals at 31 January 2016 were: Factory power sh.1,600 and rent and rates sh. 4,000.
- (ii) There was also prepayment of Sh. 800 for salesmen’s motor vehicle insurance.
- (iii) Inventories at 31 January 2016, were valued at cost as follows: Raw materials Sh. 15,200, Work in progress Sh. 30,400, Finished goods Sh. 45,600
- (iv) Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.
- (v) Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.
- (vi) The provision for bad debts is to be made equal to 5% of accounts receivable at 31 January 2016.

Required: Prepare Mrs Mariidadi’s manufacturing, trading and income statement for the year ended 31 January 2016 and a statement of the financial position as at that date. **(25mks)**

QUESTION TWO

Faidi Commercial Bank Ltd. offered 200,000 ordinary shares for sale to the public at a par value of Sh.25 each on 1 April 2014, payable as follows:

- On application, Sh.5 due on 15 April 2014
- On allotment, Sh.5 due on 30 April 2014
- On first call, Sh.7.50 due three months after allotment
- On second and final call, Sh.7.50 due three months after the first call.

Additional information:

1. The company received applications for 530,000 shares on the due dates. Applications for 30,000 shares were rejected and the application money refunded. The rest of the applicants were allotted shares on a prorata basis.
2. One month after allotment, one shareholder of 2,000 shares remitted Sh.25,000 as calls in advance. The rest of the calls were received on the due dates except for money due on second and final call for Sh.8,000 shares which was paid three months late.
3. The surplus application monies were treated as calls in advance.
4. The company’s articles of association provided for charging of interest on calls in arrears at 10% per annum.

Required: Ledger accounts to record the above transaction. **(15mks)**

QUESTION THREE

The accountant of Maamba Sports Club has extracted the following information from the books of account for the year ended 31 March 2011.

Receipts (sh)			Payments (sh)		
Balance forward	brought	288,000	Salaries and wages	254,000	
Subscriptions			New equipment	565,000	
Year: 2009/2010		249,000	Repairs and	124,000	

		maintenance	
2010/2011	2,050,000	Office expenses	415,000
2011/2012	194,000	Printing and stationery	168,000
Dinner dance	723,000	Purchase of beverages	497,000
Beverage sales	657,000	Dinner dance expenses	315,000
Investments income	400,000	Refund of subscriptions	45,000
		Sports prizes	25,000
		Transport	248,000
		Investments	1,500,000
	_____	Balance carried forward	<u>405,000</u>
	4,561,000		4,561,000

Balances as at	31 March 2010		31 March 2011
Furniture and fittings (net)	240,000		-
Equipment (net)	690,000		-
Investment at cost	3,500,000		-
Subscriptions in arrears	300,000		375,000
Salaries accrued	68,000		72,000
Stock of beverages	162,000		184,000
Subscriptions in advance	85,000		-

Additional information:

1. Subscriptions in arrears are written-off after twelve months.
2. Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively.
3. Investments, which had cost Sh. 500,000, were sold on 30 March 2011 for Sh. 625,000. No entries have been made in the books in this respect.

Required:

- (a) Income and expenditure account for the year ended 31 March 2011. **(8mks)**
- (b) Statement of the financial position as at 31 March 2011. **(7mks)**

QUESTION FOUR

Pisa and Kili were in partnership preparing their accounts to 31 March and sharing profits and losses in the ratio of 3:2 respectively. Interest was allowed on fixed capital at 10% per annum. Kili was entitled to a salary of Sh.3,000 per month. On 2 October 2015 the partners admitted Tajii a well known businessman into the partnership. On that day Tajii introduced a sum of money which was equal to 50% of Pisa's fixed capital. The amount was credited to Tajii's capital account.

The new partnership agreement provided the following:

- i. Interest on capital to be maintained at 10% per annum
- ii. Tajii is to receive a commission of 10% of the net profit before appropriations. This is due to his business acumen.
- iii. Profits will be shared equally among the partners.
- iv. Kili is now entitled to a salary of Sh.3,500 per month.

The partners also agreed to guarantee Tajii a minimum share of profit of Sh.62,000 per annum. Any deficiency on that balance will be compensated by the other two partners in equal proportions. For the purposes of admission of a partner, goodwill was valued at two years purchase of average profits for the last three years. The profits for the years ended 31 March 2013, 2014 and 2015 were Sh.60,000, Sh.50,000 and Sh.70,000 respectively. No goodwill account is to be

maintained in the books. Adjusting entries are to be made in the partners current accounts. The net profit for the year ended 31 March 2016 was Sh.360,000. The profit accrued evenly over the year.

The following are the partners balances on 1 April 2015:

	Sh.	
Fixed Capital:	Pisa, 400,000 and	Kili, 300,000
Current Accounts:	Pisa, Cr 20,000 and	Kili, Dr 1,400
Drawings during the year:	Pisa, 27,000 and Kili, 16,800 and Tajii 9,000	
Salary withdrawn by	Kili, 27,000	

Required:

- a. Profit and Loss Appropriation Account for the year ended 31 March 2015. **(5mks)**
- b. Partners Current Accounts **(10mks)**

QUESTION FIVE

- a. List and explain five characteristics of a partnership. **(5mks)**
- b. List and explain *two* ways in which the use of historical cost accounting may cause financial statements to be misleading. **(5mks)**
- a. The term 'reserves' is frequently found in company statements of financial position. Explain the meaning of 'reserves' in this context. **(5mks)**