MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

SCHOOL OF BUSINESS & ECONOMICS

BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 209
COURSE TITLE: INANCIAL ACCOUNTING II

DATE: ……………………………………… **TIME:** ………………………………………………….

INSTRUCTIONS TO CANDIDATES

- ***Answer question ONE (compulsory) and any other THREE questions.***
- ***Question one carries 25 marks***
- ***All other questions carry 15 marks***

QUESTION ONE

a) Kenya Caps Limited issued additional 100,000 ordinary shares and 50,000, 8% preference shares

On the following terms:

	Payable per share	
	Ordinary	Preference
	Sh.	Sh.
Application	2.50	2.50
Allotment (including premium)	3.50	2.00
First call 30 days after allotment	3.00	2.50
Second and final call (60 days)	2.00	2.50

The par values were Sh.10 and Sh.9 for the ordinary and preference shares respectively. By 1 August 2013, applications had been received for 200,000 ordinary shares and 40,000 preferences Shares. The directors rejected the application for 80,000 ordinary shares and refunded the monies on 15 August 2013, and the remainder allotted five shares for every six shares applied for. Surplus application monies were carried forward to allotment.

All allotment took place on 20 August 2013 and the due amounts were received by 31 August 2013. The first and second calls were received by the due dates except for 3,000 ordinary shares Which the directors declared forfeited on 20 November 2013. All the forfeited shares were reissued as fully paid to another shareholder on 30 November 2013 for Sh.9 per share.

Assume that the number of shares outstanding prior to this additional issue amounted to:

- Ordinary - 300,000 shares of Sh.10 par

-50,000 7% preference shares of Sh.7 par

All these shares had been issued at par.

Required:

(a) Journal entries including cash necessary to record the share transactions. (10marks)
(b) Record the above transactions in ledger accounts (8 marks)

(c) Prepare the share capital section of the Balance Sheet as at 31 December 2013. (5 marks)

(d) What is the importance of issuing bonus shares (2 marks)

(Total: 25 marks)

QUESTION TWO

James Mbuvi started a taxi business in Nairobi in March 2010 under the firm name Mbuvi Taxis. The firm had two vehicles KA and KB which had been purchased for Sh.560,000 and Sh.720,000 respectively earlier in the year.

In February 2012 vehicle KB was involved in an accident and was written off. The insurance Company paid the firm Sh.160, 000 for the vehicle. In the same year the firm purchased two Vehicles, KC and KD for Sh.800, 000 each.

In November 2013 vehicle KC was sold for Sh.716, 000. In January 2014 vehicle KE was Purchased for Sh.840, 000. In March 2014 another vehicle KF was purchased for Sh.960.000. The firm's policy is to depreciate vehicles at the rate of 25 per cent on cost on vehicles on Hand at the end of the year irrespective of the date of purchase. Depreciation is not provided for Vehicles disposed off during the year. The firm's year ends on 31 December.

Required:

(i) Calculate the amount of depreciation charged in the statement of comprehensive income for each of the five years. (5 marks)

(ii) Prepare the motor vehicle account (at cost). (5marks)

(iii) Calculate the profit or loss on disposal of each of the vehicles disposed of by the company. (5 marks)

QUESTION THREE

Atieno, Babu and Chesire have been trading in partnership sharing profits/losses in the ration of 5:3:2 respectively. On 1 April 2013 they admitted their manager, Dagana as a partner and the profit sharing ratio was changed to 4:3:2:1 FOR Atieno, Babu, Chesire and Dagana respectively. The partners valued the goodwill at Sh.510,000. Dagana paid Sh.200,000 as capital and his share of goodwill, which should be based on capital contributions.

The partners do not wish to retain the goodwill account after admission of Dagana. The admission of Dagana has not been fully recorded other than the cash receipt of Sh.376,500.

The following is the trial balance of the partnership as at 31 March 2014:

		Sh.	Sh.
Capital accounts	- Atieno		700,000
	- Babu		600,000
	- Chesire		400,000
Current accounts	- Atieno		350,000
	- Babu		325,000
	- Chesire		195,000
Drawings	- Atieno	270,000	
	- Babu	260,000	
	- Chesire	250,000	
	- Dagana	175,000	
Land and buildings at cost		2,000,000	
Furniture and fittings at cost		500,000	
Provision for depreciation of furniture and fittings			150,000
Motor vehicles		860,000	
Provision for depreciation on motor vehicles			480,000
Trade debtors and creditors		365,000	823,500
Dagana account			376,500
Purchases and sales		3,380,000	5,975,000
Stock 1 April 2013		465,000	
Salaries and wages		295,000	
Rates		137,000	
Telephone and postage		116,000	
Vehicles running expenses		396,000	
Insurance and subscriptions		162,000	
General expenses		72,000	
Bank charges and interest		124,000	
Bad debts		48,000	

Returns inwards and outwards	61,000	75,000
Cash in hand	24,000	
Cash in bank	490,000	
	10,450,000	10,450,000

Notes:

1) Depreciation on furniture and fittings and motor vehicles is at 10% and 20% on reducing balance respectively.
2) The closing stocks were valued at Sh.560,000.
3) Accrued salaries and wages and telephone bills amounted to Sh.24,000 and Sh.14,000 repectively.
4) Prepaid subscriptions and rates amounted to Sh.5,000 and Sh.25,000 respectively.
5) The partners decided that Dagana should be given a monthly salary of Sh.20,000 for the whole year from 1 April 2013 to 31 March 2014.
6) Dagana took goods for own use at cost amounting to Sh.185,000. No entry has been made in the books.
7) The old partners shared the cash paid by Dagana for part of his goodwill.

Required:

i) Prepare statement of comprehensive income for the year ended 31 March 2014. (6 marks)

ii) Partners capital accounts. (2 marks)

iii) Partners current accounts. (3 marks)

iv) Statement of financial position as at 31 March 2014. (4marks)

QUESTION FOUR

The following balances remained in the books of Ahadi Ltd. as at 30 April 2013 after the Preparation of the trading account:

	Sh.
Share capital, authorized and issued:	
2,400,000 Sh. 20 ordinary shares	48,000,000
800,000 8% Sh. 20 preference shares	16,000,000
Stock – 30 April 2013	33,540,000
Accounts receivable and prepayments	10,880,000
Accounts payable and accruals	5,488,800

Balance at bank	3,118,400
10% debentures	6,400,000
General reserve	11,200,000
Bad debts	136,000
Gross profit for the year	32,603,200
Salaries and wages	11,280,000
Rates and insurance	564,000
Postage and telephone	248,000
Water and electricity	486,400
Debenture interest	320,000
Directors' fees	1,000,000
General expenses	1,243,200
Motor vehicles (Cost Sh. 11,640,000)	2,720,000
Office fittings and equipment (Cost Sh. 17,856,000)	10,976,000
Land and buildings at cost	52,880,000
Profit and loss account – 1 May 2012	9,700,800

Additional information:

1. A bill for Sh. 219,200 in respect of electricity for the period up to 30 April 2013 has not been accrued.

2. The amount for insurance includes a premium of Sh. 120,000 paid in January 2013 to cover the company for six months, February to July, 2013.

3. Office fittings and equipment are to be depreciated at 15% per annum on cost and motor vehicles at 20% per annum on cost.

4. Provision is to be made for:

Directors' fees - Sh. 2,000,000

Audit fee - Sh. 480,000

The outstanding debenture interest.

5. The directors have recommended that:

· A sum of Sh. 4,800,000 be transferred to general reserve.

· The preference dividend be paid.

· A 10% ordinary dividend be paid.

Required:

(i) Statement of comprehensive income for the year ended 30 April 2013. (8 marks)

(ii) Statement of financial position as at 30 April 2013. (7 marks)

QUESTION FIVE

Auto Transmitters Ltd. is a medium-size factory in Nairobi Industrial Area which manufactures Transmitters. The following trial balance was extracted from the books of the company as at 31 December 2013.

	Sh.	Sh.
Ordinary share capital		4,000,000
Preference share capital		2,000,000
Profit and loss account (1 January 2013)		424,750
Freehold land and building (land Sh.400,000)	1,700,000	
Plant and machinery at cost	7,300,000	
Office equipment at cost	1,100,000	
Motor vehicles at cost	2,000,000	
Accumulated depreciation (1 January 2013):		
Plant and machinery		2,245,000
Office equipment		245,000
Motor vehicles		800,000
Accounts receivable and payable	5,000,000	3,562,260
Provision for bad and doubtful debts		10,000
Manufacturing wages	5,014,000	
Stock at cost (1 January 2013):		
Raw materials	700,000	
Work-in-progress	1,260,000	
Finished goods	2,500,000	
Distribution costs	850,130	
Returns inwards	151,060	
Purchase of raw materials	5,186,000	
Sales		26,001,470
Balance at bank		600,200
Directors salaries	601,140	
Maintenance of plant and machinery	301,020	
Rent	400,630	
Advertising	1,900,480	
Rates	501,710	
Insurance	201,160	
Office salaries	1,660,130	
Electricity	460,270	
Factory lightning	300,140	
Bank interest	70,700	
Interim preference dividend paid	100,000	

General administration expenses	630,110	
	39,888,680	39,888,680

Additional information:

1 Depreciation is to be provided as follows:

- Plant and machinery at 15%on cost.
- Office equipment at 10%on cost.
- Motor vehicles at 25%on written down value.
- Building (erected during the year) at 2%on straight-line basis.

2. Prepaid rates as at 31 December 2013 were sh.31, 400.

3. An insurance premium for public liability cover in the sum of sh.33,520 was paid for a period of one year to 31 march 2014.The amount owing for electricity and rent as at 31 December 2013 was sh.12,140 and sh.23,210 respectively.

4. Rent, rates, electricity and insurance expenses are to be apportioned in the ratio, 5/6 to The factory and 1/6 to office expenses.

5 .A provisions for bad and doubtful debts at 1% of the debtors is to be made.

6. The share capital (authorized and fully paid) as at 31 December 2013 was as follows:

- 800,000 ordinary shares of shares of sh.5. Each"
- 200,000 10%preference'shares of sh.10 each"

A provision for the final preference dividend and a dividend of sh.2.25 per ordinary share is to be made.

7. Office salaries include Sh. 642,370 paid to salesmen while director's salaries include sh.200, 000 paid to the production director.

8. Corporation tax of sh.1, 000,000 is to be provided for.

9. 1,500 transmitters were completed and transferred to the warehouse at a transfer price of Sh. 10,000 per transmitter.

10 The value of stocks as at 31 December 2013 was as follows:

Sh.

· Raw materials at cost 562,000

· Work -in-progress at cost 471,900

· Finished goods at transfer price 1,000,000(100 transmitters)

(Notes that owing to a change in accounting policy, the closing stock of finished goods Were valued at transfer price during the year ended 31 December 2013)

Required:

a) Manufacturing account for the year ended 31 December 2013 (4 marks)
b) statement of comprehensive income for the year ended 31 December 2013 (6marks)
c) Statement of financial position as at 31 December 2005 (5marks)

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