



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

THIRD/ ATTACHEMENT SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 102: FOUNDATIONS OF ACCOUNTING II

(KITUI, MACHAKOS)

DATE: 17TH AUGUST, 2018

TIME: 2.00-4.00PM

INSTRUCTIONS TO CANDIDATES

- 1. Answer QUESTION ONE and any other TWO**
- 2. All workings where necessary must be shown**
- 3. Be clear, neat and orderly in your presentation**

QUESTION ONE

(30 MARKS)

a) In recent years, many financial analysts have commented on a growing disillusionment with the usefulness and reliability of the information contained in some companies' income statements.

Required:

Discuss the extent to which a company's statement of cash flows may be more useful and reliable than its income statement. **(6marks)**

b) The 2009 annual accounts for Tamarid ltd are given below.

Profit and loss account for the year ended 31st December 2009.

	Sh.	Sh.
Sales (all credit sales)		2,217,000
Less: cost of sales		<u>(1,201,000)</u>
Gross profit		1,016,000

Less: expenses		
-Administration	611,500	
-Depreciation	100,000	<u>(711,500)</u>
Profit before interest & tax		304,500
Loan interest		<u>(83,300)</u>
Profit before tax		221,200
Less: corporation tax		<u>(124,240)</u>
Profit after tax		96,960
Retained profit b/d		<u>551,090</u>
		648,050
Less: dividends		<u>(30,000)</u>
Retained profit c/d		<u>618,050</u>

Balance sheet as at 31st December 2009

	Sh.	Sh.
Fixed assets		
Property at cost		1,170,210
Equipment at cost	665,770	
Less: depreciation	<u>(200,000)</u>	<u>465,770</u>
		1,635,980
Current Assets		
Stock at cost	531,120	
Debtors	200,000	
Investments at cost	<u>300,000</u>	
	1,031,120	
Current liabilities		
Creditors	(450,120)	
Bank overdraft	<u>(8,930)</u>	<u>572,070</u>
		2,208,050
Less: 7% long term loan		<u>(1,190,000)</u>
Net assets		<u>1,018,050</u>
Financed by:		
Share capital and reserves		400,000
Profit and loss account		<u>618,050</u>
		<u>1,018,050</u>

Required:

Calculate the following accounting ratios

- i) Stock turnover rate (number of times per year)

(2 marks)

- ii) Period of credit allowed to debtors (in days) (2 marks)
 - iii) Working capital ratio (current ratio) (2 marks)
 - iv) Quick or acid test ratio (2 marks)
 - v) Gross profit ratio (2 marks)
 - vi) Net profit (after tax) ratio (2 marks)
- c) Explain the accounting treatment of the following with reference to Partnership accounts
- Interest on capital (2 marks)
 - Interest on drawings (2 marks)
 - Partners salaries (2 marks)
- d) Differentiate between Receipts & payments account and an Income and Expenditure account (4 marks)

QUESTION TWO

(20 MARKS)

The Treasurer of Jamii sports and social Club has provided the following information relating to the financial year ended 31 Dec 2004:

1. Assets and Liabilities as at 1Jan 2004	Shs	31 Dec .2004	Shs
Equipment	1,250,000	Equipment	1,400,000
Subscription in arrears	100,000	Subscription in arrears	120,000
Subscriptions received in advance	65,000	Subscriptions received in advance	45,000
Creditors for bar stocks	175,000	Creditors for bar stocks	215,000
Bar stocks	400,000	Bar stocks	300,000
Rent owing	75,000	Rent owing	50,000
Electricity bills unpaid	56,500	Electricity bills unpaid	70,000
Balance at Bank	361,500	Balance at Bank	86,500
2. Cash Receipts for the year ended 31 Dec 2004			Shs.
Subscriptions		Subscriptions	1,050,000
Bar takings		Bar takings	2,050,000
Sale of tickets for Annual dinner dance		Sale of tickets for Annual dinner dance	1,200,000
Sale of Raffle Tickets		Sale of Raffle Tickets	90,000
3. Cash Payments in the year ended 31/12/2004			
Miscellaneous expenses		Miscellaneous expenses	50,000
Purchase of equipment		Purchase of equipment	400,000
Bar stocks		Bar stocks	1,025,000
Barman's wages		Barman's wages	375,000
Catering for dinner dance		Catering for dinner dance	720,000
Hire of band for dinner dance		Hire of band for dinner dance	180,000
Purchase of Raffle Tickets		Purchase of Raffle Tickets	30,000
Hiring Premises for dinner dance		Hiring Premises for dinner dance	120,000

Rent	385,000
Printing and Postage	100,000
Electricity	290,500
Secretary's Expenses	61,000
Repairs to equipment	150,000

Required:

- a) Bar Trading and Profit and Loss a/c for the year ended 31 Dec 2004 **(8 Marks)**
b) Income and Expenditure a/c for the year ended 31 Dec 2004 **(6 Marks)**
c) Balance sheet as at 31 Dec 2004 **(6 Marks)**

QUESTION THREE

(20 MARKS)

From the following trial balance of M Fry, you are asked to draw up an income statement for the year ended 31 December 2007 and a statement of financial position as at that date

	Shs.000	Shs.000
Profit and loss account 31 December 2006		23,000
Sales		52,000
Purchases	33,000	
Stock in trade 31 December 2006	9,660	
Premises	135,000	
Equipment	25,000	
Vehicles	16,000	
Bank	9,600	
Wages	14,500	
Insurance	2,340	
Preference share capital (shs 1 shares) 6%		50,000
Ordinary share capital (shs 1)		120,000
Provision for bad debts.		450
General reserve		7,800
Debtors	12,400	
Creditors		7,000
Rent	3,250	
	<u>260,750</u>	<u>260,750</u>

Additional Information:

- i) Stock in trade at 31 December 2007 was shs 10,660,000

- ii) Prepaid wages shs 320,000 ,
- iii) Insurance owing shs 45,000
- iv) The provision for debtors is to be maintained at 5%
- v) Corporation tax is to be provided for at shs 1,600,000
- vi) The preference dividend is to be provided for and an ordinary dividend of 5% is also to be provided for.

QUESTION FOUR

(20 MARKS)

Mboyamak limited manufacturer’s farm implements. The following list of balances was extracted from the books of account of the company as at 31 December 2012

	Shs
Inventory as at 1 January 2012	
Raw materials	1,270,000
Work in progress	1,555,000
Finished goods	1,163,000
Purchase of raw materials	4,576,750
Carriage of raw materials	98,000
Direct labour	4,210,400
office salaries	1,670,950
Rent	260,000
Electricity (office)	221,000
Depreciation expense Machinery	510,000
Equipment (office)	115,000
Sales	15,931,100
Electricity (factory)	406,000

Additional information;-

1. Inventory as at 31 December 2012 was given as follows:-

	Shs
Raw materials	1,445,000
Work in progress	1,230,000
Finished goods	1,442,000

2. Rent is to be apportioned between the factory and office in the ratio of 3:1
3. Finished goods are transferred from factory to sales at mark up of 20%
4. The values of opening and closing inventory are given at the transfer price

Required:

- i) Manufacturing account for the year ended 31 December 2012
- ii) Income statement for the year ended 31 December 2012

QUESTION FIVE**(20 MARKS)**

KV, a limited liability company, is preparing its statement of cash flows for the year ended 31 May 2010. It presents the following financial statements.

<u>Balance Sheets as at 31 May</u>	(Sh. '000')	<u>2010</u>	<u>2009</u>
Assets			
<i>Non-current assets</i>			
Cost		65,251	53,525
Accumulated depreciation		<u>(14,798)</u>	<u>(12,509)</u>
		50,453	41,016
<i>Current assets</i>			
Inventory		16,503	14,563
Trade receivables		6,214	8,664
Bank		<u>595</u>	<u>536</u>
Total assets		<u>73,765</u>	<u>64,779</u>
Equity and liabilities			
Sh.1 Ordinary share capital		21,000	17,000
Share premium		7,892	6,425
Revaluation reserve		7,454	4,092
Retained earnings		19,979	18,190
9% 5 year loan notes		6,734	8,825
Trade payables		9,505	8,951
Taxation		<u>1,201</u>	<u>1,296</u>
Total equity and liabilities		<u>73,765</u>	<u>64,779</u>

Income statement for the year ended 31 May 2010 (Sh. '000')

Sales revenue	28,775
Cost of sales	<u>(14,821)</u>
Gross profit	13,954

Distribution costs	(4,908)
Administrative expenses	(3,410)
Profit from operations	5,636
Interest received	57
Finance cost	(794)
Profit before tax	4,899
Taxation	<u>(1,570)</u>
Profit for the period	<u>3,329</u>

Additional information

- i. Dividends paid during the year were Sh.1, 540,000.
- ii. There were no amounts outstanding in respect of interest payable or receivable as at either year end.
- iii. Total depreciation for the year was Sh. 2,487,000.
- iv. The only revaluation of non-current assets was of a piece of freehold land.
- v. During the year, the company sold equipment for Sh.766, 000 realizing a profit of Sh.66,000

Required: Prepare a statement of cash flows for ABC for the year ended 31 May 2010 in accordance with IAS 7 **(20 Marks)**