MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya.

Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411

Fax: 064-30321

Website: www.must.ac.ke Email: info@must.ac.ke

University Examinations 2014/2015

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF BUSINESS ADMINISTRATION AND BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

BFC 3175: FINANCIAL ACCOUNTING II

DATE: AUGUST 2015 **TIME: 2 HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE (30 MARKS)

a) Explain the content of the following two documents as used in formation of companies:

(i) Memorandum of Association

(ii) Articles of Association (5 Marks)

b) Briefly explain the reasons why a company would not distribute all its profits to its shareholders (5 Marks)

c) The following trial balance was extracted from the books of Bible Society as at 30 September 2010

	Shs.	Shs.
Balance at bank current account	724,800	
Accumulated fund 1 October 2009		5,771,200
Land and building at cost	3,700,000	
Debtors for subscription	62,000	
Furniture and fittings	1,874,000	
Provision for depreciation of furniture &		

fittings		284,000
Subscriptions		1,450,800
Lecturers' fees	920,000	
Lecturers' travel and accommodation expenses	358,000	
Donations		108,000
Camera and projector repairs	17,000	
Projectors, cameras and audio equipment	190,400	
Depreciation of equipment		54,400
Rates and water	277,000	
Lighting and heating	367,200	
Rental of rooms		495,000
Wages – caretaker	880,000	
Restaurant	1,600,000	
Bar staff	800,000	
Purchase of food	1,565,800	
Stock-bar 1 October 2009	473,600	
Bar receipts		4,032,000
Bar purchases	2,842,000	
Restaurant receipts		3,642,000
Loan		1,600,000
Deposit account-bank	1,000,000	
Interest payable and receivable		36,000
Creditors for bar and food		178,400
	17,651,800	17,651,800

Additional Information

1. The bar stock was valued at shs.642,800 as at 30 September 2010
2. It is expected that of the debtors for subscriptions shs.43,600 will not be collectable
3. The interest account is net. The loan is at a concessional rate of 4% while 10% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.

4. An invoice for shs.43,000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation
5. Depreciation for the year is to be provided as follows:
   Furniture and fittings shs.194,000
   Projectors, cameras etc shs.19,000

   Required:

   (i) Bar and restaurant trading account for the year ended 30 September 2010 (8 Marks)

   (ii) An income and expenditure account for the year ended 30 September 2010 (12 Marks)

QUESTION TWO (20 MARKS)

Nzioka is a grocer who had not kept complete books of account. The following was a summary of his bank statements for the year ended 31 October 2000:

	Shs		**Shs.**
Amount credited by bank	7,034,000	Balance 1 November 1999	178,400
		Payment to trade creditors	6,100,000
		Rent and rates	95,000
		Fixtures	20,000
		Lighting & heating	42,000
		General expenses	160,000
		Loan interest	24,000
		Drawings	180,000
		Customer cheque dishonoured	36,000
		Balance 31 October 2000	198,600
	7,034,000		7,034,000

The following information is also available;

1. Trading receipts consists partly of cash and party of cheques. During the year, Nzioka had paid out of his cash takings wages amounting to shs.590,000 and sundry expenditure of shs.28,000. He retained shs.600 a week (assume 52~weeks in a year) pocket money and maintained a balance of shs.4,000 in the till tot change. The balance

of his takings together with cheques amounting to shs.50,000 which he had cashed out of his takings was paid into the bank

2. Cheque drawn payable to trade creditors. But not presented at 1 November 1999 amounted to shs.56,000 and at 31 October 2000 shs.64,000.
3. All dishounored cheques were re-presented and honoured during the year
4. The loan interest was paid to the lender who had lent Nzioka shs.800,000 some years ago at a rate of 3% p.a. The interest was duly paid half-yearly on 31 January and 31 July and the loan was still outstanding at the close of the year
5. Discounts allowed by trade creditors amounted to shs.96,000 and those allowed to debtors were shs.104,000

	As at November 1999	31 October 2000
	Shs.	Shs.
Stocks	900,000	1,600,000
Trade debtors	560,000	640,000 (includes a bad debt shs.40,000)
Accrued general expenses	48,000	38,000(to be written off)
Rates paid in advance	8,000	10,000
Fixtures valued at	560,000	510,000
Trade creditors	360,000	440,000
Creditors for lighting and heating	16,000	14,000

Required:

(i) A statement of Nzioka's capital on 1 November 1999 (10 Marks)

(ii) Profit and loss account for the year ended 31 October 2000 and a balance sheet at that date (10 Marks)

QUESTION THREE (20 MARKS)

a) Explain the following terms:

(i) Share premium (2 Marks)

(ii) Authorized share capital and issued share capital (3 Marks)

b) The Wide Trading Company Limited has an authorized capital of shs.500,000 dividend into 5,000 ordinary shares of shs.100 each.

On 1 January 2001, the Board of Directors decided to issue 4,000 shares at shs.125 each payable as shs.50 on application, Shs.50 on allotment (including the shs.25 premium) and shs.25 on first and final call. The applications were receivable on 20 January 2001 when allotment was made. The allotment money was receivable by 15 February 2001. The first and final call was made on 15 March 2001 and the call money receivable by 31 March 2001. Applications were received for 6,000 shares. The directors decided to refund money for 1,000 shares and the other applicants were allotted prorate with the excess money utilized to meet part of the allotment money. The balance of the allotment money was received on the due date. The first and final call was made and the call money received on the due date

Required:

(i) Application and Allotment Account, first and Final call Account, Ordinary Share Capital Account, Share Premium Account and bank account (10 Marks)

(ii) Balance sheet as at 12 April 2001 (5 Marks)

QUESTION FOUR (20 MARKS)

Kaluwax Ltd manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the books of the company at 30 April 2001:

	Shs.	**Shs**
Stocks at 1 May 2000		
Raw materials, at cost	350,000	
Work-in-progress, at factory cost	1,800,000	
Finished goods (3,500 units) at factory cost	3,500,000	
Raw materials purchased	3,950,000	
Sales (12,000 units)		18,000,000
Manufacturing wages	3,000,000	
Factory rent and rates	1,400,000	
Factory light, heat and power	655,000	
Plant at cost		6,000,000
Plant depreciation at 1 May 2000		2,800,000
Works manager’s salary	245,000	
Plant repairs		400,000

Administrative overheads	1,800,000	
Factory lease at cost (20 yrs duration)	4,000,000	
Amortisation at 1 May 2000		1,200,000
Share capital		7,500,000
Debtors	3,050,000	
Bank balance	1,600,000	
Creditors		2,450,000
Carriage inwards	200,000	
	31,950,000	31,950,000

The following additional information is available:

1. Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.
2. Raw materials costing shs.500,000 were in stock on 30 April 2001.
3. Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to shs.2,300,000.
4. There was no wastage or pilferage during the current year.

Required:

Manufacturing, trading and profit and loss account for the year ended 30 April 2001

(20 Marks)

QUESTION FIVE (20 MARKS)

The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

(a) The business entity principle

(b) The historical cost principle

(c) The monetary principle

(d) The matching principle

(e) The conservatism principle

Required:

For each of the principles listed above:

(i) Explain the meaning (10 Marks)

(ii) Justify the meaning (5 Marks)

(iii) Explain any weaknesses associated with its use (5 Marks)