The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2019

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS/COMMERCE

UNIT CODE:

UNIT TITLE: FINANCIAL ACCOUNTING II

DATE: DECEMBER, 2019 **TIME:**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Accounting concepts refer to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts. The main objectives is to maintain uniformity and consistency in accounting records. These concepts constitute the very basis of accounting
All the concepts have been developed over the years from experience and thus they are universally accepted rules

Required:

Briefly discuss the following accounting concepts

i) Business Entity (2 marks)
ii) Money measurement (2 marks)
iii) Going concern (2 marks)
iv) Accounting period (2 marks)
v) Historical cost (2 marks)
vi) Double Entry (2 marks)
vii) Accruals concept (3 marks)

(b) Karembo, Kitambi and Sura Mbaya have been friends for many years. Each of them has been running fairly successful businesses as sole proprietors. You recently met Karmbo and iscussed with her what you had been learning about partnership in your University class. She got excited about what you shared and has even invited you to their Chama meeting and asked that you talk to her and her friends about potential benefits of forming a partnership.

Required:

List and briefly explain what advantages you would advise the three friends they may gain from being in partnership (5 marks)

(c) Give short explanatory notes on the following terms used in accounting:

- Share premium account (1 mark)
- Forfeited share (1 mark)
- Share redemption (2 marks)

ii) List and briefly explain advantages that may accrue to companies from being able to purchase and redeem their own shares (6 marks)

QUESTION TWO

Mukami and Sambili are in partnership sharing profits and losses equally. The following is their trial balance as at 30th June 2019

	Dr	Cr
Building (cost Ksh 75,000,000)	50,000,000	
Fixtures	11,000,000	

Provision for depreciation	Fixtures		3,300,000
Debtors		16,243,000	
Creditors			11,150,000
Cash at bank		677,000	
Stock at 30th June 2018		41,979,000	
Sales			123,650,000
Purchases		85,416,000	
Carriage outwards		1,288,000	
Discount allowed		115,000	
Loan interest: Mingi		4,000,000	
Office expenses		2,416,000	
Salaries and wages		18,917,000	
Bad debts		503,000	
Provision for bad debts			400,000
Loan from pesa Mingi			40,000,000
Capitals:	Mukami		35,000,000
	Sambili		29,500,000
Current account:	Mukami		1,306,000
	Sambili		298,000
Drawings	Mukami	6,400,000	
	Sambili	5,650,000	
		244,604,000	**244,604,000**

NOTES

(a) Stock, 30th June 2019 Kshs 56,340,000
(b) Expenses to be accrued: Office expenses kshs 96,000; wages kshs 200,000
(c) Depreciate fixtures 10 per cent on reducing balance basis, building Kshs 1 m
(d) Reduce provision for bad debts to Kshs 320,000
(e) Partnership salary Kshs 800,000 to Mukami, Not yet entered
(f) Interest on drawings: Mukami Kshs 180,000; Sambili Kshs 120,000
(g) Interest on capital account balances at 10 per cent

Required:

Using the information above prepare

i) A trading and profit and loss appropriation account for the year ended 30th June 2019 (11 marks)
ii) A balance sheet as at that date (9 marks)

QUESTION THREE

(a) The authorized and issued share capital of Moto Mingi Ltd. Was kshs 7.5 divided into 75,000 ordinary shares of Kshs 100 each, fully paid. On 2nd January 2019, the authorized capital was increased by a further 85,000 ordinary shares of kshs 100 each to Kshs 16 m. On the same date 40,000 ordinary shares of Kshs 100 each were offered to the public at Kshs 125 per share payable as to Kshs 60 on application(including the premium), Kshs 35 on allotment and Kshs 30 on 6th April 2019.

The lists were closed on 10th January 2019, and by the date applications for 65,000 shares had been received. Applications for 5,000 shares received no allotment and the cash paid in respect of such shares were returned. All shares were then allocated to the remaining applicants pro ratato their original applications, the balance of the monies received on applications being applied to the amount due on allotment

The balances due on allotment were received on 31st January 2019, with the exception of one allottee of 500 shares and these were declared forfeited on 4th April 2019. These shares were reissued as fully paid on 2nd May 2019, at Kshs 110 per share.

The call due on 6th April 2019 was duly paid by the other shareholders.

Required:

i) Record the above mentioned transactions in the appropriate ledger accounts (11 marks)

ii) Show how the balances on such accounts appear in the company's balance sheet as at 31st May 2019 (9 marks)

QUESTION FOUR

The following are selected balances of Filisika Ltd as at 31st March 2019

	KSHS '000'
Profit and loss account as at 31st March 2004	10,2000
Stock 1st April 2018	8,400
Purchases	146,200
Sales	245,600
Return inwards	10,800
Return outwards	3,700
Carriage inwards	1,470
Wages and salaries (see note (b)	13,600
Rent and business rates (see Note ©	1,400
General distribution expenses	2,800
Discounts allowed	2,400
Bad debts	3,600
Debenture interest	500
Motor expenses (see Note d)	1,200
Interest received on bank deposit	1,600
Income from shares in undertakings in which the	600
company has a participating interest	300
Motor vehicle at cost: Administrative	5,400
Distribution	9,200
Equipment at cost: Administrative	1,500
Distribution	1,200
Royalties receivable	400
Dividends paid	12,000

NOTES

(a) Stock at 31st March 2019 Kshs 10.2m
(b) Wages and salaries are to be apportioned
Distribution cost ¼ administrative expenses ¾
(c) Rent and business rates are to be apportioned:
Distribution costs 55 per cent, administrative expenses 45 per cent
(d) Apportion motor expenses in the proportions 2:3 between distribution costs and administrative expense
(e) Depreciate motor vehicle 20 per cent and equipment 10 per cent on cost
(f) Accrue auditor's remuneration of Kshs 1.1m
(g) Accrue corporation tax for the year on ordinary activity profit Kshs 36.4 m
(h) A sum of Kshs 2M is to be transferred to general reserve

Required:

Draw up

i) A detailed trading and profit and loss account for internal use (12 marks)
ii) A profit and loss account for publication (8 marks)

QUESTION FIVE

The following balances remained in the boks of Pokea Ltd on 31st March 2019, after the profit and loss account and appropriation account had been drawn up

	Dr Kshs'000'	Cr Kshs '000'
Ordinary share capital Kshs 100 shares		25,000
Preference share capital Kshs 50 shares		10,000
Calls account (ordinary shares)	100	
Development costs	3,200	
Goodwill	10,400	
Land and building – at cost	25,000	
Plant and machinery – at cost	7,500	
Provision for depreciation: Buildings		2,000
Provision for depreciation plant and machinery		3,000
Shares in undertakings in which the company has a participating interest	7,000	
Stock: Raw materials	600	
Stock: Finished goods	3,600	
Debtors: Trade	2,400	
Amounts owed by undertakings on which the company has a participating interest	1,000	
Prepayments	200	
Debentures (see Note 1)		5,000
Bank overdraft (repayable on demand)		1,600
Creditors: Trade (repayable within 1 year)		1,700
Bills payable (see note 2)		400
Share premium		5,000
Capital redemption reserve		1,000
General reserve		2,000
Profit and loss account		4,300
	61,000	61,000

NOTES:

i) On the debentures, Kshs 2m is repayable in 5 months' while the other Kshs 3 m is repayable in 4 years' time

ii) Of the bills payable, Kshs 300k is in respect of a bill to be paid in 8 months' time and Kshs 100k for bill payable in 14 months' time

iii) The depreciation charged for the year was:
- Building Kshs 500k
- Plant and machinery Kshs 750k

Required:

(a) Prepare the balance sheet as at 31 March 2019 in accordance with the companies Act (20 marks)