



**Strathmore**  
UNIVERSITY

**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF COMMERCE/BACHELOR OF FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BCM 1204/BFS 1202: ACCOUNTING IN BUSINESS II (JAN-MARCH 2022)**

**Date:** Monday, 21<sup>st</sup> March 2022

**Time:** 2 Hours

***Instructions***

This examination consists of **FIVE** questions.

Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

The following is the trial balance of Mamba Manufacturing Ltd. at 31 October 2021.

<b>Item</b>	<b>Sh.</b>	<b>Sh.</b>
Authorized and issued ordinary share capital		40,000,000
Share premium		500,000
8% debenture		10,000,000
Profit and loss account 1 November 2020		5,500,000
Motor vehicle at cost	16,500,000	
Motor vehicles- accumulated depreciation 1 Nov 2020		3,400,000
Plant and machinery at cost	25,800,000	
Plant and machinery- accumulated depreciation 1 Nov 2020		6,300,000
Land and buildings at cost (buildings sh. 5,000,000)	30,000,000	
Inventories, 1 November 2020		
Finished goods	420,000	
Raw materials	380,000	
Work in Progress	560,000	
Accounts receivable and payable	7,360,000	1,000,000
Office furniture and equipment at cost	890,000	

Office furniture and equipment- accumulated depreciation 1 November 2020		185,000
Purchases of raw materials	9,500,000	
Sales of finished goods		28,050,000
Provision for doubtful debts		500,000
Direct wages	1,350,000	
Direct expenses	395,000	
Factory overheads	290,000	
Indirect materials	350,000	
Factory insurance	150,000	
Sales room expenses	485,000	
Administration expenses	620,000	
Office salaries and wages	840,000	
Vehicle running expenses	656,000	
Bad debts written off	64,000	
Balance at bank-overdrawn		1,175,000
	<u>96,610,000</u>	<u>96,610,000</u>

**Additional information:**

- i) Provision for doubtful debts to be provided at 10% of accounts receivable.
- ii) Depreciation is to be provided for the year using **the reducing balance method** and applying rates of 15% on motor vehicle and 10% on furniture and equipment.
- iii) Plant and machinery; Buildings is to be depreciated at the rate of 20% and 10% respectively using **the straight line method**.
- iv) At 31 October 2021:

	<u>Sh.</u>
Finished goods	610,000
Raw materials	465,000
Work in Progress	695,000

- v) Debenture interest has not yet been paid.
- vi) The factory output is transferred to the trading department at factory cost plus 25% of factory profit.
- vii) Accrued salaries is sh. 85,000 and prepaid factory insurance is sh. 25,000.
- viii) It is approved to pay a final dividend of 10% on the issued share capital on 31 November

2021 and a transfer of sh.2,000,000 to a general reserve.

ix) Overdraft interest of sh. 725,000 is to be paid by 5 November 2021.

x) Provide corporation tax at 30%.

**Required:**

(a) Manufacturing, profit or loss account for the year ended 31 October 2021 **(15 Marks)**

(b) Statement of changes in equity for the year ended 31 October 2021 **(5 Marks)**

(c) Statement of financial position as at 31 October 2021 **(10 Marks)**

**QUESTION TWO**

a) Describe the accounting treatment for the following:

i. Shares issued at a premium **( 1 Mark)**

ii. Shares issued at a discount **(1 Mark)**

iii. Under-subscription of shares **(1 Mark)**

iv. Over-subscription of shares **(2 Marks)**

b) ABC Ltd. issued 1,000,000 ordinary shares of sh. 20 each payable as follows:

Application	5
Allotment	6 (including premium sh. 2)
Call I	6
Call II	5
	<b>22</b>

Applications were received for 1,300,000 shares dealt with as follows:

i) 100,000 applications were rejected.

ii) Balance allotted on pro-rata basis

All calls money was received but:

- i) A shareholder with 10,000 shares paid for call I & II together with allotment
- ii) A shareholder with 20,000 shares paid for call I but not call II
- iii) A shareholder with 30,000 shares did not pay for either call.

All shares with arrears were forfeited but reissued at 20% discount.

**Required:**

Pass the necessary journal entries.

**(15 Marks)**

**QUESTION THREE**

<b>Statement of Financial Position</b>		
	<b>2021</b>	<b>2020</b>
	<b>Kes.000</b>	<b>Kes.000</b>
<b>Assets</b>		
Non-current assets		
Property, plant and equipment	50,000.00	80,000.00
Goodwill	140,000.00	140,000.00
<b>Total Non-Current assets</b>	<b>190,000.00</b>	<b>220,000.00</b>
Current assets		
Inventories	1,000.00	3,000.00
Trade receivables	190,000.00	280,000.00
Cash	5,000.00	20,000.00
<b>Total Current Assets</b>	<b>196,000.00</b>	<b>303,000.00</b>
<b>Total assets</b>	<b>386,000.00</b>	<b>523,000.00</b>
<b>Equity and liabilities</b>		
Share capital	148,000.00	148,000.00
Retained earnings	50,000.00	40,000.00
<b>Total equity</b>	<b>198,000.00</b>	<b>188,000.00</b>
<b>Non-current liabilities</b>		
Long-term borrowings	110,000.00	75,000.00
<b>Current liabilities</b>		
Trade payables	68,000.00	253,000.00
Short-term borrowings	7,000.00	2,000.00
Current tax payable	3,000.00	5,000.00

<b>Total Current Liabilities</b>	78,000.00	260,000.00
<b>Total Liabilities</b>	188,000.00	335,000.00
<b>Total Equity and Liabilities</b>	<b>386,000.00</b>	<b>523,000.00</b>

<b>Statement of Comprehensive Income</b>		
Revenue	754,000.00	800,000.00
Cost of sales	(708,000.00)	(749,000.00)
<b>Gross profit</b>	46,000.00	51,000.00
Administrative expenses	25,000.00	20,000.00
Interest expense	6,000.00	4,000.00
Profit before tax	15,000.00	27,000.00
Tax expense	3,000.00	5,000.00
Profit for the period	12,000.00	22,000.00

**Additional information:**

Total Ordinary Dividends paid	3000	5000
Outstanding no. of shares	12500	12500

**Required:**

Compute the following ratios for 2021 and 2020:

- i) Current ratio **(2 Marks)**
- ii) Quick ratio **(2 Marks)**
- iii) Debt ratio **(2 Marks)**
- iv) Debt Equity ratio **(2 Marks)**
- v) Times interest earned **(2 Marks)**
- vi) Debtors collection period **(2 Marks)**
- vii) Total asset turnover **(2 Marks)**

- viii) Gross profit margin (2 Marks)
- ix) Return on Equity (2 Marks)
- x) Earnings Per Share (2 Marks)

#### QUESTION FOUR

- a) Financial ratios are useful in identifying the financial strengths and weaknesses of the firm by properly establishing relationships between items in the financial statements. **Briefly discuss the five categories of ratios.** (5 Marks)
- b) Antony, Brian and Christine have been in partnership sharing profit in the ratio of 3:2:2. On 31/12/2020, they decided to admit Daniel into the partnership on payment of capital of sh. 5,000,000. The statement of financial position on that date was as follows:

**Antony, Brian and Christine  
Statement of Financial Position  
As at 31 December 2020**

	Sh'000'	Sh'000'
<b>Non-current assets</b>		
Land and buildings		10,000
Motor vehicles		5,000
Furniture		4,000
		19,000
<b>Current assets</b>		
Inventory	3,000	
Accounts receivable	2,000	
Cash and Bank	1,000	
	6,000	
<b>TOTAL ASSETS</b>		25,000
<b>Current liabilities</b>		
Accounts payable	2,000	
Accrued expenses	1,000	
	(3,000)	
		22,000
Financed by:		
Capital: Antony	7,000	
Brian	5,000	
Christine	3,000	
	15,000	
Current: Antony	3,000	
Brian	2,000	

Christine

2,000

7,000

22,000

**Additional information:**

- i) For the purpose of admission the assets were revalued as follows:

<b>Asset</b>	<b>Sh.</b>
Goodwill	900,000
Land & buildings	12,000,000
Motor vehicles	4,000,000
Inventory	3,500,000
Accounts receivable	1,500,000

- ii) Christine is to leave the partnership and be paid sh. 3,000,000 in cash and furniture worth sh. 500,000. The balance of her claim is to remain as a loan at 7% interest.
- iii) The new partnership does not wish to retain goodwill in its accounts.
- iv) The new profit sharing ratio is 3:3:2: to Antony, Brian and Daniel respectively.

*Required:*

- a) Partners' capital accounts **(5 Marks)**
- b) Revaluation account **(5 Marks)**
- c) Statement of Financial Position after admission **(5 Marks)**

**QUESTION FIVE**

- a) Using relevant examples distinguish between the following:
- i. Manufacturing and Non- Manufacturing costs **(4 Marks)**
  - ii. Direct and Indirect manufacturing costs **(4 Marks)**
- b) Highlight and discuss the differences between share capital and loan capital **(6 Marks)**
- c) Identify **four** circumstances that would necessitate a change in accounting for a partnership business **(2 Marks)**
- d) Discuss **four** factors that distinguish companies from sole proprietorships **(4 Marks)**