



BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BCM 1204: ACCOUNTING IN BUSINESS II

Date: Monday, 21st March 2022

Time: 2 Hours

Instructions:

1. Candidates should attempt **QUESTION ONE** and any other **TWO** questions.
 2. ALL workings should be shown **CLEARLY**.
-

Question One (Compulsory)

- a) State any two advantages and two disadvantages of financial ratios (**4 Marks**)
- b) Explain the meaning of the following terms as used in IAS 7 (Cash flow statements)
 - 1) Cash and cash equivalents (**2 Marks**)
 - 2) Operating activities (**2 Marks**)
 - 3) Financing activities (**2 Marks**)
- c) Kwenda and Kwetu are in partnership sharing profits and losses equally. They manufacture Toys whose brand name is “MAGIC”. Their trial balance as at 31 December 2021 was as follows:

	Sh.'000	Sh.'000
Capital accounts:		
Kwenda		4,000
Kwetu		4,000
Current accounts:		
Kwenda		500
Kwetu	100	
Drawings:		
Kwenda	200	
Kwetu	300	
Stock (1 January 2021)		
Raw materials	1,500	
Work in progress	2,200	
Finished goods	1,200	
Factory land and buildings at cost (land Sh.17 million)	18,000	
Plant and machinery at cost	3,500	

Delivery van (for sales distribution)	1,400	
Provision for depreciation on:		
Factory buildings		40
Plant and machinery		1,400
Delivery van		700
Sales		86,240
Purchases of raw materials	40,000	
Production wages	10,000	
Factory manager's salary	480	
Office salaries	5,000	
Distribution costs	3,250	
Factory rates and insurance	700	
Fuel and electricity	800	
Office rates and insurance	500	
Bad debts	20	
Provision for doubtful debts		20
Royalties payable	1,000	
Trade debtors and creditors	800	700
Bank balance	6,390	
Carriage on raw materials	500	
Provision for unrealized profit		240
	<u>97,840</u>	<u>97,840</u>

Additional information:

1. Stock at 31 December 2021 was valued as follows:

	Sh.'000
Raw materials	2,000
Work in progress	4,200
Finished goods	1,000

2. Insurance prepaid (31 December 2021)

	Sh.'000
Factory	200
Office	35

- Rates owing (31 December 2021)

	Sh.'000
Factory	500
Office	25

3. Depreciation is provided at the following rates:

 Factory buildings – 2% per annum on cost
 Delivery van – 25% per annum on cost
 Plant and machinery – 20% per annum on cost

4. Provision for doubtful debts is to be maintained at 5% of the debtor's balance at the end of the year.
5. Manufactured goods are transferred to the warehouse at cost plus 25% of factory profit
6. The partnership agreement has the following provisions:
- (i). A commission of 10% to Kwetu based on factory profit while Kwenda is entitled to a commission of 10% based on net profit from trading.

- (ii). Partners are allowed interest on their fixed capitals at a rate of 10% per annum.
 (iii). Kwenda had guaranteed Kwetu a total income from the partnership of not less than Sh.15,000,000 per annum.

Required:

- (i) Manufacturing, income statement and appropriation accounts for the year ended 31 December 2021. **(12 marks)**
 (ii) Statement of financial position as at 31 December 2021. **(8 marks)**
(Total: 30 marks)

Question Two

- a) Differentiate the following terms as used in company accounts
 (i) Authorized/registered/normal share capital and issued share capital. **(3 Marks)**
 (ii) Revenue reserves and capital reserves **(3Marks)**
 b) The treasurer of Golf Members Club has produced the following receipts and payments account for the year ended 30th April 2021.

	Sh.000		Sh.000
Balance at bank b/d	716	Secretarial Expenses	300
Sale of competition tickets	1,264	Rent	1,600
Members subscriptions	4,216	Meeting expenses	1,444
Donations	500	Electricity	538
		Competition prizes	1,030
		Equipment	800
		Stationery	574
		Balance at bank c/d	410
	6,696		6,696

The following valuations are also available as at 30th April:

	2020	2021
	Sh.000	Sh.000
Equipment (cost sh 3,600,000)	2,600	2,920
Subscriptions in arrears	160	220
Accrued electricity	74	82
Inventory of stationery	108	92
Prepaid rent	400	480

Required:

- a) Income and expenditure account for the year ended 30th April 2021 **(7 Marks)**
 b) Statement of financial position as at 30th April 2021 **(7 Marks)**

Total 20 Marks

Question Three

- a) Explain the meaning and valuation of inventory as per IAS 2. **(4 Marks)**

b) Distinguish between preference shares and share premium

(4 Marks)

c) The following statements of financial positions were extracted from the books of Jasho as at 30th June 2020 and 2021:

	2020	2021
	sh.'000'	sh.'000'
Non-current assets		
Cost	85,000	119,000
Accumulated depreciation	<u>(26,000)</u>	<u>(37,000)</u>
	59,000	82,000
Current assets		
Inventories	34,000	40,000
Receivables	26,000	24,000
Cash at bank	10,000	13,500
	<u>70,000</u>	<u>77,500</u>
Total assets	<u>129,000</u>	<u>159,500</u>
Financed by equity & liabilities		
Ordinary share capital (Shs. 100 Par value)	26,000	28,000
Share premium	12,000	13,000
Retained earnings	<u>31,000</u>	<u>53,500</u>
	69,000	94,500
Noncurrent liabilities		
10% Debentures	20,000	10,000
Current liabilities		
Payables	15,000	23,000
Taxation	12,000	15,000
Dividends	13,000	17,000
	<u>40,000</u>	<u>55,000</u>
	<u>129,000</u>	<u>159,500</u>

Additional information:

1. There were no disposals of non-current assets during the year ended 30th June 2021.
2. Sh. 10 million of 10% debentures were redeemed on 31st December 2020.
3. During the year ended 30th June 2021, a dividend of sh. 17,000,000 was proposed.
4. Taxation for the year ended 30th June 2021 was agreed at sh. 15,000,000.
5. Profit before tax for the year ended 30th June 2021 was sh. 54,500,000.

Required: Cash flow statement for the year ended 30th June 2021, in accordance with the requirements of IAS 7 (Cash flow statements). **(12 Marks)**

Total 20 Marks

Question Four

- a) Explain the following terms as used by not- for- profit organizations
- (i) Fines **(2 Marks)**
 - (ii) Entrance fee **(2 Marks)**
- b) The following balances were extracted from the books of Maximum Limited as at 31 August 2021:

	Shs '000
Capital: Authorized	3,500
Issued and fully paid ordinary shares of Sh. 20 each	2,500
8% redeemable preference shares of Sh. 20 each	600
9% debentures	800
Retained earnings as at 1 September 2020	1,990
Land	200
Buildings at cost	1,800
Provision for depreciation-buildings as at 1 September 2020	600
Fixtures and fittings at cost	4,000
Provision for depreciation-fixtures and fittings as at 1 September 2020	800
Sales	5,060
Inventory as at 1 September 2020	900
Purchases	3,050
Establishment expenses	270
Administration expenses	600
Discounts allowed	60
Discounts received	40
Allowance for doubtful debts	40
Trade receivables	1,290
Trade payables	500
Bank balance	760

Additional information:

1. Depreciation is to be provided as follows:
Building 2.5% p.a. on cost
Fixtures and fittings 10% p.a. on cost
The company's policy is to provide depreciation in the year of acquisition and none in the year of disposal.

2. The allowance for doubtful debts is to be increased to Sh. 64,500
3. The interest on debentures for the year ended 31 August 2021 has been paid. The amount was correctly posted in the cashbook but wrongly debited to the trade receivables.
4. The following information is provided on the value of closing inventory as at 31 August 2021:

Net realizable value	Shs. 1,380,000
Cost to the company	Shs. 1,300,000
Selling price	Shs. 1,900,000
5. During the year ended 31 August 2021, some items of fixtures and fittings were sold for Shs. 60,000. The amount received was erroneously credited to sales. The items disposed off had cost the company Shs. 200,000 and had a written down value of Shs. 160,000 as at 1 September 2020.
6. The directors proposed to pay an ordinary dividend of Shs. 2 per share. They have also proposed pay preference dividend.
7. Corporate tax rate is 30%.
8. The directors have agreed to transfer Shs. 100,000 to the general reserve.

Required:

- (i) Income statement for the year ended 31 August 2021. **(8 Marks)**
 - (ii) Statement of financial position 31 August 2021. **(8 Marks)**
- (Total 20 Marks)**

Question Five

- a) Explain the meaning of the following terms as used in manufacturing accounts
 - (i) Prime cost **(2 Marks)**
 - (ii) Work in progress **(2 Marks)**
- b) Kenya Tel Cellphone Operators Ltd. started operations on 1 September 2020. The company raised the required equity capital of Sh.130 million and debt at an annual rate of interest of 18% before commencing business. Given below are some statistics extracted from the books of the company in respect of the financial statements prepared to 31 August 2021.

	Sh.'000'
Total fixed assets (Net book value)	150,000
Operating costs (excluding debt interest)	78,300
Dividends declared and paid	8,440
Cash and bank balances	6,250

Eighty percent (80%) of the sales were on credit. The current assets on 31 August 2021 consisted of only stock, debtors and cash and bank balances as given above, while current liabilities consisted of only creditors and tax provided for in respect of the year to 31 August 2021. Taxation was provided for at the rate of 30%.

You are also provided with the following ratios which have been determined from the financial statements of Kenya Tel Cellphone Operators Ltd.

Fixed assets turnover	1.8 times
Gross profit margin	45%
Stock turnover	4.4 times
Interest cover	4 times
Average debt collection period (based on 360 days of the year)	84 days
Current ratio	2.5:1

Required:

In respect of the year ended 31 August 2021, you are required to prepare the company's:

- (i) Income statement. **(8 marks)**
 - (ii) Statement of Financial position **(8 marks)**
- (Total 20 Marks)**