



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF COMMERCE**  
**END-OF-SEMESTER EXAM**  
**BCM 1102: ACCOUNTING IN BUSINESS II**

**DATE:** Thursday, 5<sup>th</sup> December 2024

**TIME:** 13:00 – 15:00

**Instructions**

Attempt question **one** plus any **other two** questions.

**QUESTION ONE**

**(30 MARKS)**

- a. The following balances have been extracted from the books of BATA Manufacturers limited, a manufacturing enterprise producing rubber shoes, as at 31 December 2018:

		<b>KES</b>
		<b>'000'</b>
Stocks as at 1 January 2018:	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labour		28,000
Factory overheads:	Variable	16,000
	Fixed	9,000
Administrative expenses:	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (for sales deliveries):	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2018		48,000
Provision for unrealized profit at 1 January 2018		1,380
Motor Vehicle running costs		4,500

**Additional information:**

1. Stocks on 31 December 2018 were as follows:

	KES '000'
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350
2. The factory output is transferred to the trading department at factory cost plus 25% of factory profit.
3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.  
Plant and machinery = 10%  
p.a  
Motor vehicles = 25%  
pa
4. Amounts accrued at 31 December 2018 for direct labour amounted to KES 3,000,000 and rent and rates prepaid at 31 December 2018 amounted to KES 2,000,000.
5. Assume corporate tax to be 30%.

**Required:**

- i. Manufacturing, profit or loss account for the year ended 31 December 2018. **(12 marks)**
  - ii. Statement of financial position as at 31 December 2018. **(8 marks)**
- b. State and explain **Five** minimum requirements for a company to be listed on the Nairobi stock exchange market? **(5 marks)**
- c. Multiple choice questions **1 mark for each question (Total = 5 marks)**

1. **Barak did not maintain a full set of accounting records in his first year of trading. How did Barak calculate his credit sales?**
  - A. Closing trade receivable + cash received – discount allowed
  - B. Closing trade receivable + cash received + discount allowed
  - C. Closing trade receivable + cash received - discount received
  - D. Closing trade receivable + cash received + discount allowed
2. **Why is it necessary for a manufacturing business to make an adjustment for work in progress in its manufacturing account?**
  1. To calculate what is needed to complete production
  2. To record all factory cost
  3. To show only the cost of goods completed
  - A. 1 and 2
  - B. 1 only
  - C. 2 and 3
  - D. 3 only

3. On 1<sup>st</sup> February 2017 John's fixtures and fittings had a net book value of sh.12,950. She purchased fixtures, sh. 2,250, during the year. Depreciation for the year ended 31<sup>st</sup> January 2018 was sh.4,900.
- Sh.5800
  - Sh. 7150
  - Sh. 10300
  - Sh. 15600
4. The accounts of a business are prepared on the basis that the business will continue to operate for the foreseeable future. Which accounting principle is being applied?
- Accrual (matching)
  - Consistency
  - Going concern
  - Realization
5. A business provided the following information.
- |                           |             |
|---------------------------|-------------|
| Revenue                   | sh. 290,000 |
| Gross profit              | sh. 90,000  |
| Profit for the year ended | sh.70000    |
- What was the mark-up?
- 24.14%
  - 31.03%
  - 35.00%
  - 45.00%

## QUESTION TWO

(20 MARKS)

- List and explain **Two** limitations of ratio analysis. (4 marks)
- Ariziki started a wholesale business on 1 July 2023 by depositing Sh.12,000,000 into a business bank account. Ariziki did not maintain a full set of accounting records. The following transactions took place during the year ended 30 June 2024:
  - Brought in her personal pick-up van valued at Sh.6,000,000 to be used in the business. The van was estimated to have an economic useful life of 4 years as at 1 July 2023.
  - On 31 December 2023, she took a bank loan of Sh.4,000,000 at an interest rate of 15% per annum. At the end of the year the loan interest was in arrears.
  - During the year ended 30 June 2024, Angela purchased goods amounting to Sh.79,000,000 on credit and Sh.6,000,000 on cash paid through the bank. As at 30 June 2024, Sh.3,000,000 accounts payable to suppliers was still outstanding.
  - Credit sales during the year amounted to Sh.125,000,000 while cash sales amounted to Sh.6,500,000. A customer who owed Sh.1,500,000 was declared bankrupt and the debt had to be written off. By 30 June 2024, accounts receivable stood at Sh.5,500,000.
  - During the year, Angela Riziki spent Sh.2,500,000 of the cash sales received for her personal use and Sh.1,200,000 to pay for telephone and water bills. The balance was banked.

6. Discount received and discount allowed during the year ended 30 June 2024 amounted to Sh.1,800,000 and 1,100,000 respectively.
7. As at 30 June 2024, inventory was valued at Sh.7,200,000.
8. Credit suppliers and credit customers are paid and pay through the bank respectively.
9. The following payments were made through the bank during the year:

Expenses	Sh. "000"
Rent expenses	3,600
Purchase of furniture (1 July 2023)	8,000
Salaries and wages	11,000
Transport	4,200
Insurance	2,800
Advertisement	2,100
Repair of motor vehicle (van)	850
Electricity and internet	2,200
Carriage inwards	2,500

10. Furniture was to be depreciated at the rate of 15% per annum on a straight-line basis.
11. As at 30 June 2024, electricity bills unpaid amounted to Sh.450,000, while insurance prepaid was Sh.1,200,000.

**Required:**

- i. Statement of profit or loss for the year ended 30 June 2024. **(8 marks)**
- ii. Statement of financial position as at 30 June 2024. **(8 marks)**

**QUESTION THREE (20 MARKS)**

- a. How can a business, despite maintaining proper accounting records, end up with incomplete records? Describe two scenarios that could lead to this situation. **(4 marks)**
- b. The following is the receipt and payment account of VY Club for the year ended 30 June 2024:

<b>VY Club Receipt and payments account</b>			
	Sh. "000"		Sh. "000"
Balance brought forward	1,400	Motor vehicle	26,000
Subscriptions	25,800	Water and electricity	3,520
Bar takings	40,000	Secretary honoraria	72
			0
Donations	9,600	Bar wages	2,800
Sale of equipment	800	Administrative staff salaries	12,800
Sale of magazines	3,200	Bar payables	29,600
Competition tickets	7,200	Ground maintenance	4,400
		Insurance	4,800
		Balance carried forward	?
	<u>88,000</u>		<u>88,000</u>

**Additional information:**

1. Investment income of 10% per annum is receivable as at 30 June 2024.
2. During the year ended 30 June 2024, equipment with a net book value of Sh.600,000 was disposed of for Sh.800,000.
3. Depreciation policy is on a reducing balance basis at the following rates:

Asset	Rate per annum (%)
Motor vehicle	10
Equipment	20

4. The following balances were provided for the years ended 30 June:

	2023 Sh. "000"	2024 Sh. "000"
Bank	1,400	?
Land at cost	10,000	10,000
Motor vehicles	20,000	?
Equipment	14,400	?
Investment at cost	40,000	40,000
Bar inventory	88	1,440
	0	
Bar payables	1,600	2,000
Subscription in arrears	1,840	1,480
Subscriptions in advance	2,880	72
		0
Accrued insurance	80	1,200
	0	
Accrued electricity	40	52
	0	0
Accrued bar wages	-	60
		0

**Required:**

- i. Bar statement of profit or loss for the year ended 30 June 2024. **(4 marks)**
- ii. Income and expenditure account for the year ended 30 June 2024. **(6 marks)**
- iii. Statement of financial position as at 30 June 2024. **(6 marks)**

**QUESTION FOUR****(20 MARKS)**

- (a) The following trial balance was extracted from the books of Hibiscus Ltd. as at 30 June 2024:

	Sh. "000"	Sh. "000"
Ordinary share capital of Sh.100 each		78,000
12% preference share capital of Sh.100 each		13,000
Share premium		10,400
10% debentures		13,000
Accounts payable		19,240
Accounts receivable	42,900	
Sales		724,000
Purchases	548,600	

Discounts allowed	650	
Discounts received		1,690
Freehold buildings	165,000	
Furniture and fittings	83,200	
Accumulated depreciation:		
Freehold buildings		6,500
Furniture and fittings		33,280
Inventory (1 July 2023)	54,600	
Returns outward		10,400
Rent expenses	16,900	
Selling and distribution expenses	21,710	
Bad debts written off	520	
Allowance for doubtful debts		2,340
Administrative expenses	7,280	
Retained earnings (1 July 2023)		47,060
Goodwill	20,800	
Bank overdraft		<u>3,250</u>
	<u>962,160</u>	<u>962,160</u>

The following additional information is available:

1. Depreciation on non-current assets is provided on a straight-line basis at the following rates:

Asset	Rate per annum (%)
Freehold buildings	20
Furniture and fittings	12.5

2. As at 30 June 2023, accounts receivables included Sh.130,000 due from Johnson Wetu who has now beendclared bankrupt. It has been decided to write off this debt as a bad debt.
3. The allowance for doubtful debt as at 30 June 2024 is to be adjusted to 10% of accounts receivable.
4. Rent expenses prepaid as at 30 June 2024 amounted to Sh.52,000.
5. Administrative expenses accrued as at 30 June 2024 amounted to Sh.95,000.
6. The company paid the interest on debentures for the year ended 30 June 2024 on 31 July 2024.
7. As at 30 June 2024, inventory was valued at Sh.7,280,000.
8. The company directors propose that the preference shares dividend be paid and a dividend of 10% of theordinary shares be paid.
9. Corporation tax is charged at the rate of 30% of the net profit.

**Required:**

- i. Statement of profit or loss for the year ended 30 June 2024. **(10 marks)**
- ii. Statement of financial position as at 30 June 2024. **(6 marks)**

**QUESTION FIVE****(20 MARKS)**

Kate, Mercy and Nickson have been trading as partners under the name Komon Partnership. The partners share profits and losses in the ratio of 4:3:2 respectively. On 1 November 2021, an employee, Oliver, was admitted as a partner. He was to bring Sh.1,750,000 as capital and Sh.1,680,000 as his share of goodwill. The partners do not intend to open a goodwill account. The admission of Oliver has not been fully recorded in the books of account other than the cash record.

The following trial balance was extracted from the books of Komon Partnership as at 31

October 2022:	Sh. "000"	Sh. "000"
Capital accounts: Kate		9,500
Mercy		7,500
Nickson		6,000
Current accounts: Kate		4,350
Mercy	2,280	
Nickson		3,780
Drawings: Kate	3,500	
Mercy	3,000	
Nickson	3,200	
Oliver	2,500	
Land and buildings	11,500	
Furniture and fittings (cost)	7,100	
Motor vehicles (cost)	10,000	
Accounts receivable	3,550	
Allowance for depreciation (1 November 2021)		
Furniture and fittings		4,100
Motor vehicles		4,350
Accounts payable		3,050
Other Payables		3,430
Sales		86,360
Purchases	56,350	
Inventory (1 November 2021)	5,460	
Salaries and wages	5,000	
Advertising expenses	3,580	
Motor vehicle expenses	3,980	
Insurance expenses	2,400	
Office expenses	3,430	
Bad debts	1,730	
Cash	1,650	
Bank	2,210	
	<u>132,420</u>	<u>132,420</u>

**Additional information:**

1. The new profit or loss sharing ratio was agreed at 4:3:2:1 for Kate, Mercy, Nickson and Oliver respectively.
2. On 31 October 2022, inventory was valued at Sh.5,780,000.
3. As at 31 October 2022, accrued salaries and wages and accrued advertising expenses amounted to Sh.1,790,000 and Sh.1,680,000 respectively.

4. As at 31 October 2022, prepaid insurance amounted to Sh.660,000.
5. It was further agreed that since Oliver was a former employee, he would be entitled to a salary of Sh.853,000 per annum with effect from 1 November 2021.
6. The partners resolved that they would receive an interest of 10% per annum on their respective balances of fixed capital at the beginning of the year.
7. Depreciation is to be provided per annum on cost as follows:

<b>Asset</b>	<b>Rate per annum</b>
Furniture and fittings	12%
Motor vehicles	25%

**Required:**

- i. Statement of profit or loss and appropriation account for the year ended 31 October 2022. **(10 marks)**
- ii. Partners' current accounts **(4 marks)**
- iii. Statement of financial position as at 31 October 2022. **(6 marks)**