



**STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BFS 1202: ACCOUNTING IN BUSINESS II**

DATE: 5th December 2023

Time: 08:00-10:00

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE (30 marks)

- (a) (i) Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. **(3 marks)**
(ii) Distinguish reserves from share capital. **(3 marks)**
- (b) List down four content of partnership deed **(4 marks)**
- (c) The following trial balance was extracted from the books of Asante co ltd as at 30th June 2023:

	Shs '000'	Shs '000'
Ordinary share capital (par value of Shs.10 per share)		22,500
Share premium		1,200
10% debentures		1,500
Revenue reserves		3,930
10% preference shares		12,000
Inventory	7,935	
Purchases and sales	33,270	56,955
Discounts	510	753
Salaries	4,275	
Rates and insurance	2,553	
Office expenses	2,208	
Directors remuneration	750	
Interim dividends paid: Preference	480	
:Ordinary	2,250	
Trade receivables and payables	15,600	3,015
Allowance for doubtful debts		420
Bank balance	1,917	
Buildings	25,500	
Furniture and fittings	2,250	
Motor vehicles	12,000	
Provision for depreciation: Furniture and fittings		450
:Motor vehicles		4,650
Debenture interest	75	
Investment income		4,200
	111,573	111,573

Additional information:

1. The cost and net realizable value of inventory as at 30th June 2023 was Shs. 4,200,000 and Shs. 3,950,000 respectively.
2. Depreciation is to be provided as follows:

Asset	Rate per annum
Furniture and fittings	10% on reducing balance method
Motor vehicles	20% on straight line basis

3. Allowances for doubtful debts to be adjusted to Shs. 300,000.
4. Irrecoverable debts amounting to Shs. 50,000 to be written off.
5. Insurance amounting to Shs. 600,000 had been paid to cater for a period of one year ending 30th September 2023.
6. Provisions for accrued debenture interest and preference dividends are to be made.
7. Corporation tax for the year is estimated at Shs. 1, 750, 000.
8. The directors have proposed payments of final dividends of 10%.

Required:

- (i) The statement of profit or loss for the year ending 30th June 2023 **(12 marks)**
- (ii) The statement of financial position as at 30th June 2023 **(8 marks)**

QUESTION TWO**(15 marks)**

The following represent the statement of profit or loss for the year ending 30 June 2023 and statement of financial position as at 30 June 2022 and 2023 for Joyland co ltd.

JOYLAND COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDING 30 JUNE 2023

	2023
	Shs 'm'
Revenue	600
Cost of sales	(336)
Gross income	264
Administration costs	(100)
Selling and distribution costs	(70)
Finance cost	(50)
Profit before tax	44
Income tax expense	(24)
Profit after tax	20

JOYLAND COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE

	2023	2022
	Shs 'm'	Shs 'm'
Assets		
Non-current assets		
PPE	1,200	900
Intangible-Goodwill	90	100
	1,290	1,000
Current assets		
Inventory	250	280
Account receivables	460	440
Cash and Cash equivalents	200	240
	910	960
Total assets	2,200	1,960
Equity and liabilities		
Equity		
Share Capital	480	420
Share premium	80	60
Revaluation reserves	30	20
Retained earnings	435	420
	1,025	920
Non-current liabilities		
10% debentures	200	150
12% bonds	200	300
	400	450
Current liabilities		
Tax payables	36	32
Account payables	739	558
	775	590
Total equity and liabilities	2,200	1,960

Additional information:

- (i) The company uses revaluation method to account for PPE, during the year there was revaluation upwards of Shs. 10m. There was no disposal of PPE during the year, depreciation for the year amount to Shs. 110m and the balancing figure was due to acquisition in cash.
- (ii) The item of intangible assets is goodwill resulting from acquisition of subsidiaries, impairment loss on goodwill during the year amount to Shs. 10m.
- (iii) The company has the policy of paying the interest on debt every year on 30th November.
- (iv) The company paid dividends during the year.

Required:

Present the Statement of Cash Flow for the year ending 30 June 2023.

QUESTION THREE**(15 marks)**

Soma co ltd is in the business of manufacturing books. The following trial balance was extracted from the books of the company as at 30th June 2023:

	Shs '000'	Shs '000'
Issued and fully paid ordinary share capital (Shs. 10 par value)		441,000
Retained earnings at 1 July 2022		569,200
Production machinery (Cost: Shs. 600 million)	390,000	
Office equipment (Cost: Shs. 140 million)	100,000	
Inventory at 1 July 2022:		
Raw materials	46,000	
Work in progress	33,000	
Finished goods	667,000	
Sales		2,400,000
Trade receivables and payables	691,000	497,000
Carriage outwards	124,000	
Factory wages	333,000	
Carriage of raw materials	39,400	
Purchases of raw materials	400,000	
General factory expenses	66,000	
Lighting expenses	72,000	
Factory power	118,000	
Administrative salaries	350,000	
Rent	160,000	
Insurance expenses	132,000	
General administrative expenses	144,000	
Bank overdraft		26,800
Cash in hand	15,000	
Bank charges	9,600	
Discounts	28,000	21,000
Royalties	37,000	
	3,955,000	3,955,000

Additional information:

- Inventory as at 30th June 2023 was made up of the following:

	Shs '000'
Raw materials	50,000
Work-in-progress	23,000
Finished goods	722,000

- Lighting expenses, rent and insurance expenses are to be apportioned as follows: factory 70% and profit or loss 30%.

3. Depreciation is to be provided as follows:
 Production machinery – 8% on cost
 Office equipment – 10% per annum on reducing balance method
4. Factory wages included Shs. 123 million for indirect labour

Required:

- (a) Manufacturing account and statement for profit or loss for the year ending 30th June 2023 **(8 marks)**
- (b) Statement of financial position as at 30th June 2023 **(7 marks)**

QUESTION FOUR (15 marks)

Jambo Cricket and Hockey club has a cricket and hockey section. The following information was extracted from the books of the club for the year ended 30 June 2023.

Receipts and Payment account

Receipts	Shs"000"
Subscriptions: Hockey section	2,010
: Cricket section	2,320
Dinner receipts: Hockey section	456
Dance proceeds: Cricket section	561
Bar takings	6,790
Raffle for development	880
Payments	
Bar purchases	4,600
Hockey dinner expenses	623
Cricket dance expenses	520
Barman's salary	1,100
Development fund for raffle prizes	200
General overheads	3,100
Hockey section expenses	1,168
Cricket section expenses	653
Government bonds	2,000

Additional information:

1. During the year ended 30 June 2023, 58 members paid subscriptions of Shs. 40,000 each to the cricket section while 67 members paid subscriptions of Shs. 30,000 each to the hockey section.

2. The number of subscriptions received in advance and subscription in arrears as at 1 July 2022 and 30 June 2023 were as follows:

	1 July 2022		30 June 2023	
	Hockey	Cricket	Hockey	Cricket
Subscription in advance	3	12	2	18
Subscription in arrears	5	-	12	1

3. The following balances were extracted from the records of the club as at 1 July 2022 and 30 June 2023:

	Shs"000"	Shs"000"
Bar receivables	132	247
Bar payables	780	903
Bar inventory	580	435
General overhead creditors	120	238
General overhead prepayments	100	350
Club premises at cost (land Shs. 4 million)	24,000	24,000
Stock of raffle prizes	140	138
Loan on mortgage	13,000	13,000
Accumulated depreciation	3,000	?
Development Fund balance	4,700	?
Hockey section balance	2,170	?
Cricket section balance	2,305	?

4. The club premises are to be depreciated over 20 years. The bar profit, general overheads and depreciation are apportioned equally to the hockey and cricket sections.

Required:

- (a) Income and expenditure account for the year ended 30 June 2023 **(7 marks)**
 (b) Statement of affairs as at 30 June 2023 **(8 marks)**

QUESTION FIVE (15 marks)

Stella and Jason are in partnership sharing profits and loss in the ratio of 3:2 respectively. The partnership deed provides for interest on capital at the rate of 5% per annum. The partners are entitled to annual salaries of Shs. 800,000 and Shs. 500,000 for Stella and Jason respectively.

The following balances were extracted from the books of the partnership as at 30th June 2023:

	Shs '000'	Shs '000'
Capital accounts: Stella		12,000
: Jason		5,000
Current accounts: Stella		3,000
: Jason		1,000
Drawings: Stella	2,800	
: Jason	2,000	
Inventory as at 1 July 2022	19,000	
Building at cost	10,000	
Furniture at cost	3,200	
Purchases and sales	62,140	87,460
Rent and rates	400	
Electricity	500	
Bank overdraft		1,070
Trade receivables and payables	5,660	6,200
Repairs and maintenance	6,020	
Insurance	300	
Carriage inwards	960	
Bad debts written off	270	
Salaries and wages	3,000	
Provision for depreciation as at 1 July 2022:		
-Building		200
-Furniture		550
Cash in hand	230	
	116,480	116,480

Additional information:

1. Inventory as at 30th June 2023 was valued at Shs. 15,600,000
2. Depreciation is to be provided for as follows:
Buildings - 2% per annum on cost
Furniture - 10% per annum on the reducing balance method
3. The following amount were outstanding as at 30th June 2023:
Salaries and wages – Shs. 200,000
Electricity - Shs. 100,000
4. An allowance for doubtful debts amounting to Shs. 400,000 is to made
5. Insurance paid in advance as at 30th June 2023 amounted to Shs. 40,000

Required:

- (a) Statement of profit and loss and appropriation account for the year ended 30th June 2023 **(8 marks)**
- (b) Statement of financial position as at 30th June 2023 **(7 marks)**