



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BCF 1102: ACCOUNTING I BUSINESS II**

**DATE:** Mon, 4<sup>th</sup> March

**Time:** 13:00 – 15:00

**Instructions:**

ANSWER QUESTION ONE AND ANY OTHER TWO

**Question One**

(a). Imagine you are a financial analyst conducting a detailed examination of the financial statements of a manufacturing company in the automotive industry.

**Required:**

In this context, elaborate on the distinction between direct and indirect costs in the preparation of the financial statements using examples. **(5 marks)**

(b). Thando, Tanya, and Wanja have been trading in partnership as Little Bella Enterprises, sharing profits/losses in the ratio of 5:3:2 respectively. On 1<sup>st</sup> April 2020, they admitted their manager, Musembi, as a partner, and the profit-sharing ratio was changed to 4:3:2:1 for Thando, Tanya, Wanja, and Musembi respectively.

The partners valued the goodwill at Sh. 510,000. Musembi paid Sh. 200,000 as capital and his share of goodwill. The partners do not wish to retain the goodwill account after the admission of Musembi. The admission of Musembi has not been fully recorded other than the cash receipt of Sh. 376,500. The following is the trial balance of the partnership as of 31<sup>st</sup> March 2021.

		sh.	sh.
Capital Accounts	Thando		700,000
	Tanya		600,000
	Wanja		400,000
Current Accounts	Thando		350,000

	Tanya		325,000
	Wanja		195,000
Drawing	Thando	250,000	
	Tanya	260,000	
	Wanja	250,000	
	Musembi	175,000	
Land & Building at cost		2,000,000	
Furniture & Fitting at cost		500,000	
Motor vehicle		860,000	
Provision for depreciation	Furniture		150,000
	Motor vehicle		480,000
Receivables & Payables		365,000	823,500
Musembi account			376,500
Purchases and Sales		3,380,000	5,975,000
Inventory 1 <sup>st</sup> April 2020		465,000	
Salaries & Wages		295,000	
Rates		137,000	
Telephone and Postage		116,000	
Vehicle running expenses		396,000	
Insurance and subscriptions		162,000	
General expenses		72,000	
Bank charges		124,000	
Bad debts		68,000	
Returns		61,000	75,000
Cash		24,000	
Bank		490,000	
		<b>10,450,000</b>	<b>10,450,000</b>

### Additional information

1. Depreciation on Furniture and fittings and motor vehicle is at 10% p.a and 20% p.a on reducing balance respectively.
2. The Closing inventory were valued at sh. 560,000.
- 3 Accrued salaries and wages, and telephone bills amounted to sh. 24,000 and sh. 14,000 respectively.
4. Prepaid subscriptions and rates amounted to sh. 5,000 and sh. 25,000 respectively.
5. The partners decided that Musembi should be given a monthly salary of sh. 20,000 for the whole year from 1<sup>st</sup> April 2005 to 31<sup>st</sup> March 2021.
6. Musembi took goods for own use at the cost amounting to sh. 185,000. No entry has been made in the books.
- 7.The old partners shared the cash paid by Musembi for part of his goodwill.

### Required:

- (i). Partnership Profit and loss statement for the year ended 31<sup>st</sup> March 2021. **(12 marks)**  
(ii). Partners current account for the year ended 31<sup>st</sup> March 2021. **(2 marks)**  
(iii). Partners' capital accounts for the year ended 31<sup>st</sup> March 2021. **(3 marks)**  
(iv). Statement of Financial Position as at ended 31<sup>st</sup> March 2021. **(8 marks)**

## Question Two

The Accountant of KCB Sports Club has prepared the following receipts and payments account for the year ended 30<sup>th</sup> September 2022.

<b>Receipts</b>	<b>Sh."000"</b>	<b>Payments</b>	<b>Sh."000"</b>
Balance b/d	6912	Repairs & maintenance	2976
Subscriptions	59832	Sports equipment	13560
Dinner dance	17352	Salaries & Wages	6096
Canteen Sales	15768	Office expenses	9960
Dividends	9600	Printing & stationery	4032
		Canteen purchases	11928
		Dinner dance expenses	7560
		Refund of subscriptions	1080
		Sports prizes	600
		Transport	5952
		Shares from companies	36000
		Balance c/d	9720
	<b>109464</b>		<b>109464</b>

Balances of Assets & Liabilities as at 30 September

	<b>2021</b>	<b>2022</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
Land & Sports field	24000	24000
Sports equipment (NBV)	16560	?
Furniture & Fittings (NBV)	5760	?
Investment in company shares	84000	?
Subscription in arrears	7200	9000
Salaries accrued	1632	1728
Inventory for canteen	3888	4416
Subscriptions in advance	2040	?

### Additional information:

- Depreciation is to be charged on reducing balance basis at the following rates:  
Furniture & Fitting at 10% p.a while Sports equipment's at 20% p.a.
- During the year ended 30<sup>th</sup> September 2022, company shares valued at sh. 12,000,000 were sold for 15,000,000. No entries have been made in the books in this respect.

3. During the year ended 30 September 2022, subscriptions received amounting to Sh. 5,976,000 were for the year ended 30<sup>th</sup> September 2021, while Sh. 4656000 were for 30<sup>th</sup> September 2023.
4. Any subscriptions in arrears after a period of twelve months are written off.

**Required:**

- i). Income & Expenditure account for the year ended 30<sup>th</sup> September 2022 **(13 marks)**
- ii). Statement of financial position as at 30<sup>th</sup> September 2022. **(7 marks)**

**Question Three**

Madaraka Ltd. manufactures tableware, which it sells to the wholesale trade. The completed tableware is transferred from the factory to the warehouse at agreed prices. All the tableware is sold at Sh. 1500 each. The following trial balance was extracted from the books of the company at 30 April 2021:

	<b>Sh.</b>	<b>Sh.</b>
Stocks at 1 May 2020		
Raw materials, at cost	350,000	
Work- in-progress, at factory cost	1,800,000	
Finished goods (3,500 units) at factory cost	3,500,000	
Raw materials purchased	3,950,000	
Sales (12,000 units)		18,000,000
Manufacturing wages	3,000,000	
Factory rent and rates	1,400,000	
Factory light, heat and power	655,000	
Plant at cost		6,000,000
Plant depreciation at 1 May 2020		2,800,000
Works manager's salary	245,000	
Plant repairs		400,000
Administrative overheads	1,800,000	
Factory lease at cost (20 years duration)	4,000,000	
Amortisation at 1 May 2020		1,200,000
Share capital		7,500,000
Debtors	3,050,000	
Bank balance	1,600,000	
Creditors		2,450,000
Carriage inwards	200,000	
	<b><u>31,950,000</u></b>	<b><u>31,950,000</u></b>

**Additional information:**

1. Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.

2. Raw materials costing Sh.500,000 were in stock on 30 April 2021.
3. Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to Sh.2,300,000.
4. Manufactured goods are transferred to the warehouse at cost plus 25% of factory profit.
5. The directors proposed a dividend of 5% on the ordinary share capital.

**Required:**

- i) Manufacturing, profit and loss account for the year ended 30 April 2021. **(12 marks)**
- ii) Statement of financial position as at 30 April 2021 **(8 marks)**

**Question Four**

(a). Briefly discuss why goodwill should be paid under the following circumstances: on admission to a partnership and on retirement from a partnership. **(6 marks)**

(b) Rafiki Hardware Tools Company Limited sells plumbing fixtures on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

	<b>2019</b> Sh."000"	<b>2020</b> Sh."000"	<b>2021</b> Sh."000"
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
<b>Net fixed assets</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	500,000	550,000	550,000
	<b>1,430,000</b>	<b>1,560,000</b>	<b>1,695,000</b>
Additional information: Sales	4,000,000	4,300,000	3,800,000

Cost of goods sold	3,200,000	3,600,000	3,300,000
<b>Net profit</b>	<b>300,000</b>	<b>200,000</b>	<b>100,000</b>

**Required:**

For each of the three years, calculate the following ratios and comment:

- (i) Current ratio **(2 mark)**
- (ii) Quick ratio **(2 mark)**
- (iii) Average collection period **(2 mark)**
- (iv) Inventory turnover **(2 mark)**
- (v) Total debt/equity **(2 mark)**
- (vi) Net profit margin **(2 mark)**
- (vii) Return on assets **(2 mark)**

**Question Five**

(a). Consider a scenario in which you are an investor evaluating the financial performance of a potential investment in a company listed on the Nairobi Securities Exchange.

**Required:**

Discuss four reasons why the statement of cash flows might be more useful and reliable than the income statement. **(8 marks)**

(b). Envision you are a financial analyst examining the performance of financial institution. As you delve into ratio analysis, it becomes apparent that while ratios are valuable tools, they come with limitations.

**Required:**

Discuss five limitations of using ratios to analyse the financial institution performance using examples. **(12 marks)**