



STRATHMORE BUSINESS SCHOOL
BACHELOR OF COMMERCE
END OF SEMESTER EXAMINATION
BFS 1202: ACCOUNTING IN BUSINESS II

DATE: Thursday, 5th December 2024

TIME: 13:00 – 15:00

Instructions:

Answer Question **One** and **any other Two** Questions

Question One –Compulsory

(30 Marks)

- a) Briefly state five reasons why a company would not wish to distribute all its profits to its shareholders. **(5 marks)**
- b) ABC Limited issued 100,000 ordinary shares of 20 shillings each, payable as follows;
Application shs. 8
Allotment shs. 9 (including share premium shs.2)
First and final call shs. 5
All shares issued were applied for and money paid on due dates.

Required:

- Draw the necessary journal entries. **(5 marks)**
- c) State and explain **five** uses of ratio analysis. **(5 marks)**
- d) The following financial statements were extracted from the books of ABC Limited.
Profit and Loss account for the year ended 31st December

	2021	2022
	Shs ‘000’	Shs ‘000’
Sales	500	6300
Purchases	<u>145</u>	<u>2135</u>
Net operating profit	70	630
Add: Investment Income	<u>21</u>	<u>21</u>
Profit before interest and tax	91	651
Less: Debenture interest paid	<u>(14)</u>	<u>(14)</u>
Profit after interest before taxation	77	637
Less: Corporation tax	<u>(35)</u>	<u>(280)</u>

Profit after tax and interest	<u>42</u>	<u>357</u>
Less: proposed dividends		
Preference dividends	(8.4)	(8.4)
Ordinary dividend	—	<u>(245)</u>
Total proposed dividends	<u>8.4</u>	<u>253.4</u>
Retained profit for the year	33.6	103.6
Retained profit brought forward	70	103.6
Retained profit carried forward	103.6	207.2

Balance sheet at 31st December:

	2021	2022
	Shs '000'	Shs '000'
Fixed assets:		
Land and Buildings at cost	1,400	1,400
Plant and machinery	<u>576.8</u>	<u>261.8</u>
Total fixed assets	<u>1,976.8</u>	<u>1,661.8</u>
Goodwill	<u>350</u>	<u>350</u>
Current assets:		
Stocks	1,407	1,015
Debtors	210	490
Investments	210	210
Cash in Hand	<u>7</u>	<u>23.8</u>
	<u>1,834</u>	<u>1,738.8</u>
Current Liabilities:		
Creditors	560	336
Taxation	35	280
Dividends	8.4	253.4
Bank Overdraft	<u>779.8</u>	—
Total current liabilities	<u>1,383.2</u>	<u>869.4</u>
Net current assets	<u>2,777.6</u>	<u>2,881.2</u>
Financed by;		
Authorised and issued share capital		
Ordinary shares of shs. 10 each	2,450	2,450
10% preference shares of shs.10	<u>84</u>	<u>84</u>
	2,534	2,534
Retained profit	<u>103.6</u>	<u>207.2</u>
	<u>2,637.6</u>	<u>2,741.2</u>
Long-term liabilities:		
10% debenture	<u>140</u>	<u>140</u>
	<u>2,777.6</u>	<u>2,881.2</u>

Required;

Compute the following ratios and comment on the performance of the enterprise as highlighted by each of the ratios.

- a) The current ratios for 2021 and 2022. **(3 marks)**
- b) The average collection for 2022. **(3 marks)**
- c) The average creditors payment period for 2022. **(3 marks)**
- d) Return on assets for 2021 and 2022. **(3 marks)**
- e) Return on shareholders' funds for 2021 and 2022. **(3 marks)**

Question Two**(20 marks)**

The following balances were extracted from the books of Anyango Traders Limited as at 31st December 2022.

	Shs.
Ordinary share of sh.20 each fully paid	600,000
8% preference shares of shs.20 each fully paid	100,000
Share premium account	80,000
6% loan stock	100,000
Creditors	148,000
Debtors	330,000
Sales	4,800,000
Purchases	4,220,000
Discounts allowed	5,000
Discounts received	13,000
Freehold buildings at cost	500,000
Freehold buildings provision for depreciation	50,000
Fixtures and Fittings at cost	640,000
Fixtures and Fittings provision for depreciation	256,000
Stock (1 st January 2022)	420,000
Return outwards	80,000
Establishment expenses	130,000

Administration expenses	56,000
Selling and Distribution expenses	167,000
Bad debts written off	4,000
Provision for doubtful debts	18,000
Retained profits (1 st January 2022)	362,000
Goodwill	160,000
Bank overdraft	25,000

The following additional information is available:

1. Depreciation is provided annually on the cost of fixed assets held at the end of the financial year at the following rates: Freehold buildings at 20% and fixtures and fittings at 10%.
2. The Trade debtor balance includes 10,000 shillings due from Moses, who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
3. The provision for doubtful debts is to be at 5% of trade debtors.
4. Establishment expenses prepaid at 30th September 2006 amounted to 4000 shillings.
5. Administration expenses accrued at 30th September 2006 amounted to 7000 Shillings.
6. The company paid interest on the loan stock for the year ended 31st December 2022.
7. Closing stock was valued at 560,000 shillings
8. The company's directors declared that the preference share dividend be paid and that dividend of 10% on the ordinary shares be paid.
9. Company tax is charged at 30%

Required;

- a) Statement of Comprehensive Income for the year ended 30th December 2022. **(8 marks)**
- b) Statement of changes in equity for the year ended 31st December 2022. **(4 marks)**
- c) Statement of financial position as at 31st December 2022. **(8 marks)**

Question Three (20 Marks)

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

Item	Sh.	Sh.
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
	96,610,000	96,610,000

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. **(8 Marks)**
- (b) Statement of changes in equity for the year ended 31 October 2021. **(4 Marks)**
- (c) Statement of financial position as at 31 October 2021. **(8 Marks)**

Question Four **(20 marks)**

- 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 **five** reasons why the statement of cash flows might be more useful and reliable than the income statement. **(8 marks)**
- b) Differentiate between direct and indirect costs, using relevant examples to clarify your explanation. **(4 marks)**
- c) Discuss **four** limitations of using ratios to analyse an institution's financial performance and use relevant examples. **(8 marks)**

Question Five**(20 marks)**

The following is the summary of the cashbook of Arsenali Football Club for the year ended 30 June 2018:

Receipts	Sh.	Payments	Sh.
	'000'		'000'
Bank balance (1 July 2017)	2,340	Casual wages	7,200
Members subscription	49,850	Bar supplies	42,300
Entrance fees	32,060	Rates	1,200
Bar sales	60,840	Rent	24,600
Competition receipts	25,820	Secretary's basic salary	18,000
		Lighting and water	5,040
		Competition prizes	14,400
		Stationery and postage	3,840
		Repairs to gymnasium	3,300
		Ground upkeep	4,500
		Bar manager's salary	5,400
		Deposit with SACCO	35,000
		Bank balance	<u>6,130</u>
	<u>170,910</u>		<u>170,910</u>

Additional information:

- The assets of the club on 1 July 2017 were as follows:

	Sh. '000'
Land	650,000
Gymnasium and equipment	250,000
Bar inventory	10,800
Prizes in hand	4,800

- Bar supplies owing amounted to Sh. 4,200,000 on 1 July 2017

3. On 30 June 2018 the bar inventory was Sh. 9,600,000, prizes in hand – Sh. 2,400,00 and Sh. 5,640,000 was owing for bar supplies
4. The secretary is to receive a leave allowance of 5% of his basic salary. It was also agreed that the bar manager should receive a Sh. 500,000 bonus for increased sales during the year
5. From the register of members, it appeared that unpaid subscriptions as at 30 June 2018 totaled Sh. 5,100,000. Subscriptions received during the year included Sh. 2,550,000 in respect of the previous year and Sh. 1,700,000 in respect of the year starting 1 July 2018.
6. Interest earned on the deposit with the SACCO for the year ended 30 June 2018 amounted to Sh. 1,750,000
7. The rent paid was for fifteen months up to 30 September 2018
8. The gymnasium and equipment are to be depreciated at the rate of 10% per annum on straight line basis

Required:

- a) Income and expenditure account for the year ended 30 June 2018 **(12 marks)**
- b) Statement of financial position as at 30 June 2018. **(8 marks)**