



BACHELOR OF SUPPLY CHAIN AND OPERATIONS MANAGEMENT

END OF SEMESTER EXAMINATIONS

SCM 1103: ACCOUNTING IN BUSINESS I

Date: Tuesday, 2nd November 2021

Time: 2 hours

INSTRUCTIONS:

1. Question One is Compulsory

2. Answer any other Two Questions

QUESTION ONE (30 Marks)

(a) Briefly explain the accounting principles that guide the preparation of financial statements in the following areas:

- (i) Charging depreciation on property, plant and equipment and amortizing intangible assets (2 Marks)
- (ii) Excluding the personal transaction and resources of sole traders and partners from the financial statements (2 Marks)
- (iii) Providing for possible defaults by customers using the expected credit loss (2 Marks)
- (iv) Measuring transactions at the value at which they took place (2 Marks)

(b) Johnstone Ole Sankale is a sole trader based in Kajiado. He provides the following trial balance as at 30 June 2021:

Johnstone Ole Sankale
Trial balance as at 30 June 2021

	Debit sh.	Credit sh.
Capital		52,000,000
Drawings	9,152,000	
Purchases	41,600,000	
Returns Outwards		1,466,400
Sales		72,992,400
Returns Inwards	2,204,800	
Inventory (1 July 2020)	5,959,200	
Credit Loss (Bad debt)	728,000	
Expected Credit Loss (1 July 2020)		1,684,800

Rates and insurance	676,000	
Discount received		98,800
Trade Receivables	32,921,200	
Salaries and Wages	8,398,000	
Buildings	13,000,000	
Computer Equipment	2,912,000	
Rent received		1,092,000
Delivery expenses	8,808,800	
Carriage inwards	1,201,200	
Office expenses	696,800	
Printing and stationery	343,200	
Postage and telephone	426,400	
Trade Payables		9,838,400
Cash at bank	6,448,000	
Cash in hand	1,877,200	
Office furniture	<u>1,820,000</u>	
	<u>139,172,800</u>	<u>139,172,800</u>

Additional Information:

1. Inventory as at 30 June 2021 was valued at cost Sh. 7,430,800 and Net Realizable Value at sh. 7,654,300
2. Insurance paid in advance as at 30 June 2021 amounted to Sh. 124,800
3. Rent earned but not received amounted to Sh. 104,000 as at 30 June 2021.
4. Unpaid wages as at 30 June 2021 amounted to Sh. 348,400.
5. Johnstone reported a further credit loss of Sh. 296,400.
6. Expected credit loss is to be increased to Sh. 1,975,272.
7. Depreciation is to be provided on trial balance values as follows:

Asset	Rate per annum
Buildings	2.00%
Computer Equipment	20.00%
Furniture	10.00%

Prepare the following:

- (a) The statement of Profit or Loss for the year ended 30 June 2021 (10 Marks)
- (b) The statement of changes in capital for the year ended 30 June 2021 (4 Marks)
- (c) The statement of Financial Position as at 30 June 2021 (8 Marks)

QUESTION TWO (20 Marks)

Wanjiku and Wanjala are trading in partnership, provide the following trial balance as at 31 December 2020:

	sh.000	sh.000
Capital Accounts		
Wanjiku		15,000
Wanjala		10,000
Current Accounts		
Wanjiku		200
Wanjala	160	
Cash Drawings		
Wanjiku	1,500	
Wanjala	1,000	
Buildings	25,000	
Accumulated Depreciation on buildings		5,000
Furniture & fittings at cost	5,000	
Accumulated Depreciation on F & F		300
Inventory as at 1 Jan 2020	7,500	
Purchases and Purchases returns	38,000	1,200
Sales and Sales Returns	600	53,000
Bank	5,860	
Receivables and Payables	5,240	3,330
Credit Loss	170	
Allowance for credit losses		200
Carriage Inwards	2,150	
Carriage Outwards	300	
Salaries	4,200	
10% Bank Loan		10,000
Office Expenses	750	
Advertising	500	
Discounts allowed and received	120	100
Rates and Insurance	<u>280</u>	
	<u>98,330</u>	<u>98,330</u>

Additional Information:

1. The terms of the partnership are as follows:

(a) Interest of 5% per annum is charged allowed on capital

(b) The partners are allowed salaries as follows:

Wanjiku	1,200,000
Wanjala	800,000

(c) Interest on drawings based on the duration of the drawings (hence given)

(d) Profits shared in the ration of 2 is to 1 respectively

2. Inventory as at 31 December 2020 was valued at sh. 6,800,000
3. Salaries accrued amount to sh.90,000. The interest on loan has not been paid
4. Increase allowance for credit loss to sh.300,000
5. Insurance of sh.80,000 is prepaid.
6. Goods drawn by the partners but not recorded amounted to:

Wanjiku 50,000

Wanjala 60,000

7. Interest on drawings is provided as follows:

Wanjiku 36,000

Wanjala 29,000

8. Depreciation is provided as follows:

Buildings 2%

Furniture and Fittings 10%

Required

- (a) The statement of profit or loss and appropriation account for the year ended 31 December 2020 (10 Marks)
- (b) The statement of changes in capital (current) for the year ended 31 December 2020 (4 Marks)
- (c) The statement of Financial Positions as at 31 December 2020 (6 Marks)

QUESTION THREE

The following trial balance relates to Westmall Limited as at 31 December 2020:

	sh.m	sh.m
Ordinary shares of sh.10 (fully paid)		350
7% Preference shares of sh.10 (fully paid)		100
Share Premium		171
Retained earnings 1.1.2020		202
10% Loan stock		200
Land	150	
Buildings at Cost	250	
Furniture & Equipment	620	
Motor Vehicles	240	
Aggregate depreciation as at 1.1.2020		
Buildings at Cost		20

Furniture & Equipment		170
Motor Vehicles		52
Inventory 1.1.2020	190	
Sales		2,695
Purchases	2,152	
Long term Financial Assets	50	
Preference Dividend Paid	7	
Ordinary Dividend Paid	25	
Interest on Loan stock paid	10	
Investment Income		5
Administration expenses	160	
Marketing and Distribution expenses	31	
Other operating expenses	53	
Tax Paid	20	
Issue of new shares at a price of sh. 15 per share		120
Trade accounts receivable	179	
Trade accounts payable		185
Cash at Bank	127	
Cash in Hand	6	-
	<u>4,270</u>	<u>4,270</u>

Additional information:

1. Inventory as at 31 December 2020 was valued at sh.210 million.
2. The following expenses are prepaid and accrued

	Accrued sh.m	Prepaid sh.m
Administration expenses	16.00	4.00
Marketing and Distribution expenses	1.00	-
Other operating expenses	6.00	2.00

Meanwhile, interest on the 10% loan stock is paid after every six months i.e. 30 June and 31 December. The company had not paid the amount due for 31 December. The loanstock will be paid back in full in 2025.

3. Land is to be revalued upwards to sh.160 million.
4. The following depreciation rates apply on cost:

	Rate	Classify as...
Buildings at Cost	2%	Administration expense
Furniture & Equipment	25%	Administration expense
Motor Vehicles	20%	Distribution Expense

5. The company issued new shares at a premium of 50%. The entry has not been posted in the relevant accounts.

6. Even though the company paid installment taxes of sh.20 million as per the trial balance, the actual tax for year 2020 was estimated at sh.25 million.

Prepare the following reports:

(a) The statement of Profit or Loss for the year ended 31 December 2020 (8 Marks)

(b) The statement of changes in equity for the year ended 31 December 2020 (4 Marks)

(c) The statement of Financial Position as at 31 December 2020 (8 Marks)

QUESTION FOUR (20 Marks)

Jackson and Samson are sole proprietors carrying on business as wholesalers. The financial statement statements for the year ended 31 March 2021 were as follows:

Statement of Profit or Loss for the year ended 31 March 2021:

	Janet	Sarah
	Sh. '000'	Sh. '000'
Sales	144,000	140,000
Cost of sales:		
Opening inventory	28,000	3,200
Purchases	124,000	121,600
	<hr/> 152,000	<hr/> 124,800
Closing inventory	(32,000)	(4,800)
	<hr/> 120,000	<hr/> 120,000
Gross profit	24,000	20,000
Distribution costs	7,200	2,800
Administrative expenses	8,160	9,500
	<hr/> 15,360	<hr/> 12,300
Net profit	<hr/> <hr/> 8,640	<hr/> <hr/> 7,700

Statement of financial position as at 31 March 2021:

	Janet	Sarah
	Sh. '000'	Sh. '000'
Assets:		
Non-current assets:		
Freehold property	20,000	14,000
Fixtures, fittings and equipment	21,750	13,840
Motor vehicles	12,000	6,000

	53,750	33,840
Current assets:		
Inventories	32,000	4,800
Accounts receivables	28,800	11,200
Bank balances	8,950	11,360
	69,750	27,360
Total assets	123,500	61,200
Capital and liabilities:		
Capital	108,000	30,800
Accounts payable	15,500	30,400
Total capital and liabilities	123,500	61,200

Additional information:

1. The amounts of account receivables and accounts payable have not changed significantly over the year.
2. All sales are on credit.
3. All the non-current assets are at written-down value.
4. Assume that inventories increased evenly over the year.

Required:

(a) For each business, compute the following:

- | | |
|----------------------------------|-----------|
| (i) Gross profit Margin | (2 Marks) |
| (ii) Net Profit Margin | (2 Marks) |
| (iii) Current ratio | (2 Marks) |
| (iv) Acid test ratio | (2 Marks) |
| (v) Number of days of inventory | (3 Marks) |
| (vi) Total assets turnover ratio | (2 Marks) |
| (vii) Debt Ratio | (2 Marks) |

(b) Using the financial statements and the ratios computed in (a) briefly justify which business is better (5 Marks).

QUESTION FIVE (20 Marks)

(a) The main objective of accounting information is to provide information about the financial position and changes in financial position of an entity to various users to enable them make decision.

Required:

Explain how the following users are related to the entity and also the kind of decisions they make supported by financial statements.

- (i) Owners (2 Marks)
- (ii) Employees (2 Marks)
- (iii) Customers (2 Marks)
- (iv) Suppliers (2 Marks)
- (v) The public (2 Marks)

(b) Compare and contrast Property, plant & equipment AND Investment property using the following aspects:

- (i) Definition and examples (4 Marks)
- (ii) Initial Measurement (2 Marks)
- (iii) Subsequent measurement i.e., end of period measurement (4 Marks)