KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 813: FINANCIAL ACCOUNTING

DATE: THURSDAY 21ST JUNE 2018 **TIME: 9.00 A.M. – 12.00 P.M.**

INSTRUCTIONS:

Answer all questions

QUESTION ONE

a) Explain giving examples the distinguishing features of liabilities, provisions and reserves. (6 marks)

b) Assume that a piece of equipment costing Ksh. 10,000 has been depreciated at an annual rate of 10% per annum for 8 years. In the middle of the 9th year the equipment was sold for sh. 1,750. No deprecation had been recorded since the accounts were adjusted and closes on 31st December of year 8. Report the transaction. (4 marks) 1250 / 254 / 996

c) Assume an old Van had been acquired for shs. 80,000. It is estimated useful life is 5 years with no residue value. After four years it is traded in for a new truck at list price of Kshs. 100,000. A trade-in allowance of Kshs. 24,000 is granted. Determine the cost of the new truck and prepare journal entries to record the following transaction. (5 marks)

d) Dalamare Limited makes its accounts on 30 June every year. On 1 July 2014, the company's Statement of financial position included the following figures for non-current assets:

	Cost	Accumulated depreciation
	Sh.	**Sh.**
	'000'	**'000'**
Land	40,000	Nil
Building	22,000 34	8,000
Plant and machinery	16,000	6,000
Motor vehicles	6,000	2,000

The company's policy is to charge depreciation at the following rates:

	Rate
Land	Nil
Building	2% on cost
Plant and machinery	15% on cost
Motor vehicles	20% on cost

A proportionate charge is made in the year of purchase, sale of revaluation on an asset.

During the year ended 30 June 2015, the following transactions took place:

1. On 1 January 2015 the company decided to adopt a policy of revaluing its buildings. A professional valuer engaged for this purpose revalued the building as Shs. 34 million.
2. On 1 January a plant that had cost Sh. 3 million was sold for Sh. 500,000. Accumulated depreciation on this plant on 30 June 2014 amounted to Sh. 1.3 million. A new plant was then purchased at a cost of Sh. 4 million.
3. On 1 April 2015 a new motor vehicle was purchases for Sh. 300,000 part of the purchase price was settled by exchange another motor vehicle at an agreed value of sh 12o,000. The balance of Shs. 180,000 was paid in cash. The vehicle which was given in part exchange has cost Sh, 200,000 and had a new book value of Sh. 100,000 as at 30 June 2014.

Required:

a) The following ledge accounts to record the above transactions:

   i) Building account.

   ii) Provision of depreciation on Buildings.

iii) Plant and machinery account.

iv) Provision of deprecation: Plant and Machinery

v) Motor vehicle account

vi) Provision for depreciation: Motor vehicles

(Total 23 Marks)

QUESTION TWO

a) Financial analysis is the process of critically examining in detail, accounting information given in financial statements and reports. Explain five merits of financial analysis to a business. (5 marks)

b) The following trial balance was extracted from the books of XYZ Ltd. as on 31st Dec. 2015.

TRIAL BALANCE

	DR($)	CR($)
Share capital authorized is issues		
40,000 ordinary share, $ 1 each		40,000
Share premium A/c		3,600
Provision for depreciation motor van to 31st Dec. 2014		2,845
Motor van at cost ($5,750) less sale on 1 Jan 2015	5,150	
Freehold land building at cost	37,500	
Stock in trades 31st Dec. 2014	9,500	
Purchases and sales	92,000	132,025
Trade debtors and creditors	12,618	10,370
Wages and salaries	15,312	
Motors and delivery expenses	1,481	
Rates and insurance	639	
General expenses	6,984	
Cash and bank	11,796	
Directors fees	4,500	
Profit and loss balance at 31st Dec. 2014		8,500
	197,540	**197,540**

You are also provided with the following information

i) Stock on trade 31st Dec. 2015, $8,800

ii) Provision for depreciation of motor van is to be made at the rate of 20% per annum on cost.

iii) A motor van which had cost $800 was sols on 1st Jan 1994 for $240. Depreciation provided for this van up to 31st Dec. 2014 was $520.

iv) Rates and insurance paid in advance ate 31st Dec. 2015 was $112.

v) The cash in ban shown include a postdated cheque of $28 which has been cashed for by a customer on 31st Dec. 2015.

vi) The amount shown in the trial balance for sales and trade debtors include goods sent out on sale or return invoiced at $300 which represented costs plus 50%. These goods were returned on 3rd Jan 2015.

vii) In December 2015, goods to the cost of 725 were destroyed by fine. The insurance company has agreed to pay in full a claim for this amount, but no entry has been made to company's books.

viii) Directors have decided to recommend a dividend of 10% for the year.

Required

a. Prepare the income statement as per the companies Act on 31st Dec. 2015. (10 marks)

b. Prepare the Statements of financial position as at 31st Dec. 2015. (10 marks)

(Total 25 marks)

QUESTION THREE

a) Record following transactions in their respective books of original entry of journals of Jambo Bora for May 2017

May

1. Paid rent by cheque of Ksh 2500
2. Sold good for cash Kshs 5,000
3. Bought furniture by cheque Kshs. 15,000 less 10% discount
4. Sold stock on credit to Mails Kshs. 700
5. Bought a delivery van Kshs. 190,000 on credit from Dubby LTD

(8 marks)

15000
1500
13500

b) The following summarized statement of financial position relate to Baba Yao Ltf as at 30th June

Details	2015		2016	
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
Non current assets at cost		500		650
Less: Accumulated Depreciation		(200)		(300)
Net Book Value		300		350
Investments at cost		200		50
Current Assets				
Inventory	400		700	
Account receivable	1,350		1,550	
Cash and Bank	100		-	
		1850		2,250
Current Liabilities				
Bank overdraft	-		60	
Account payable	650		790	
Taxation	230		190	
Proposed dividends	150		130	
		(1030)		(1170)
Total Assets		**1320**		**1,480**
Capital and Reserves				
Called up share capital Shs 1 ord. Shares		500		750
Share premium A/c		150		200
Statement of income balance		670		530
		1320		**1480**

Additional Information:

i) During the year ended 30th June 2016, some non-current assets originally cost Shs. 25,000 had been sold for Shs. 20,000 in cash. The accumulated depreciation on these non-current assets on 30th June 2016 amounted to Shs. 10,000.

ii) Some of the investments originally costing shs. 150,000 had been sold for cash at their book value

iii) During the year ending 30th June 2015, the company made a 1 for 2 rights issued of 250,000 ordinary shares of Shs. 1.00 as Shs 1.20 per share.

Required:

Prepare a Statement of cash flow of Baba Yao Ltd for the year to 30th June 2016 using the indirect methods in compliance with IAS 7 (Revised) (17 marks)

QUESTION FOUR

a) Human resource accounting is the process of identifying and reporting the investments made in human resource of an organization that are presently not accounted for in the conventional accounting practice. Explain five advantages that a firm may derive from human resource accounting. (5 marks)

b) A ratio is simply a mathematical expression of an amount or amounts in terms of another or others. A ration may be expressed as a percentage, as a fraction, or a stated comparison between the two amounts. With examples outline five classes of ratios made available to a firm. (5 marks)

c) Munuve Ltd. is an expanding company and the following accounts relate to its operations for the years 2014 and 2015:

Profit statement for the year ended 30 June		
	2014	**2015**
	Sh.	**Sh.**
Sales	3,000,000	4,800,000
Less: cost of goods sold	1,650,000	2,700,000
Gross profit	1,150,000	2,100,000
Less: trading expenses	675,000	825,000
Trading profit	675,000	1,275,000
Less: debenture interest	37,300	37,500

Net profit before taxation	637,500	1,275,000
Less: corporate tax	240,000	480,000
Net profit after taxation	397,500	757,000
Less: ordinary share dividend	187,500	262,500
Undistributed profit for the year	210,000	495,000

Statement of financial position as at 30 June		**2014**		**2015**
	Sh	**Sh**	**Sh**	**Sh**
Fixed asserts at cost	1,500,00		2,100,00	
Less: Depreciation	300,000	1,200,000	375,000	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	120,000		1,350,000	
Less: current liabilities		1,095.000		
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed dividend	187,500		262,500	
Bank overdraft		------------	97,500	
		(645,000)		(1,140,000)
		1,650,000		**1,935,00**
Financed by:				
Ordinary share capital (Authorized and issued)		750,000		750,000
Undistributed profits		525,000		1,020,000
10% debentures		375,000		165,000
		1,650,000		**1,935,000**

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Required:

i) Compute six accounting rations for both 2014 and 2015 which you feel would be of particular value in assessing the Profitability and Liquidity of Munuve Ltd. (12 marks)

ii) Comment on the current position of the company with the aid of accounting ratios computed in (i) above and any other information that you consider to be relevant. (3 marks)