PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BUA3313

COURSE TITLE: FINANCIAL ACCOUNTING III

EXAM DATE:

TIME:

INSTRUCTIONS

- Read all questions carefully before attempting.
- Question **One** is **compulsory** i.e Section **A** is **compulsory**
- Answer any **THREE** Questions in Section **B**
- Write your **student number** on the answer booklet provided.

SECTION A (COMPULSORY)

QUESTION ONE (COMPULSORY)

XYZ Ltd issued 5,000,000 ordinary shares of Shs.15 each payable as follows:

Application	5
Allotment	4
First call	3
Second call	3
	15

Applications were received for 5,700,000 shares. 200,000 applications were rejected and their money refunded. The excess was settled in allotment.

All call money was received.

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Required

Pass the necessary journal entries for the above transactions **(10 Marks)**

SECTION B (CHOOSE ANY THREE)

QUESTION TWO

The following information has been extracted from the books of Hayes Limited for the year to 31 December 2016:

Statement of Profit or Loss extracts for the year ending 31 December

	2016	**2015**
	£000	**£000**
Profit before taxation	59,920	26,600
Taxation	(14,560)	(8,960)
Profit for the year	45,360	17,640

	2016	**2015**
	£000	£000

Note: Dividends paid

Preference	280	280
Ordinary	22,400	11,200
	22,680	**11,480**

Statements of Financial Position at 31 December

	2016	**2015**
	£000	**£000**
Non-current assets		
Plant, machinery and equipment, at cost	66,920	49,280
Less Accumulated depreciation	27,300	26,600
	39,620	22,680
Current assets		
Inventory	25,200	5,600
Trade debtors	74,760	24,080
Prepayments	1,120	840
Cash at bank and in hand	–	1,680
	101,080	32,200
Total assets	140,700	54,880
Current liabilities		
Bank overdraft	45,360	-
Trade creditors	28,000	16,800
Accruals	2,800	2,240
Taxation	14,560	8,960
	90,720	28,000
Non-current liabilities		
15% loan notes	2,100	1,680
Total liabilities	92,820	29,680
Net assets	**47,880**	**25,200**
Equity		
Ordinary shares of £1 each	14,000	14,000
10% preference shares of £1 each	2,800	2,800
Retained profits	31,080	8,400
	47,880	**25,200**

Additional information:

1. The directors are extremely concerned about the large bank overdraft as at 31 December 2016 and they attribute this mainly to the increase in trade debtors as a result of alleged poor credit control
2. During the year to 31 December 2016, non-current assets originally costing £15,400,000 were sold for £2,800,000. The accumulated depreciation on these assets as at 31 December 2015 was £10,640,000.

Required:

Prepare a statement of cash flows using the indirect method for the year to 31 December 2016
(10 Marks)

QUESTION THREE

A Ltd acquired 80% of B Ltd on 1st Jan 2010. The share capital Of B Ltd stood at Shs 2,000,000 while its revenue reserve stood at shs 800,000. A Ltd paid shs 7,000,000 for the purchase of B Ltd. On 31st December 2012 revenue reserves of B Ltd stood at shs 1,000,000.

Required

i. Determine the goodwill on acquisition (5 Marks)

ii. Compute the amount of minority interest as at 31st December 2012. (5 Marks)

QUESTION FOUR

The following balances were extracted from the books of Wonderful Traders Ltd at 31st January 2020.

Particulars	**DR**	**CR**
Ordinary shares of shs. 1 each fully paid		1,200,000
10% Preference shares of shs. 1 each, fully paid		200,000
Share premium		160,000
8% Loan Stock		200,000
Trade Debtors and Trade Creditors	660,000	296,000
Purchases and Sales	8,440,000	9,600,000
Discount allowed and Discount received	10,000	26,000
Freehold building at cost	1,000,000	
Provision for depreciation on freehold building		100,000
Fixtures and fittings at cost	1,280,000	
Provision for depreciation on fixtures and fittings		512,000
Stock at 1st January 2020	840,000	
Return outwards	160,000	
Establishment expenses	706,000	
Bad debts written off	8,000	
Provision for doubtful debts	36,000	

Profit and loss account at 1st January 2020	724,000	
Good will	320,000	
Bank overdraft		50,000

Additional information

i. The provision for doubtful debts at 31st January 2020 is to be 5% of trade debtors at that date.
ii. Gross profit for the year is at a rate of 16% of sales.
iii. Depreciation is to be provided annually on the cost of fixed assets held at the end of the year at the following rates:
    - Freehold buildings 2%
    - Fixtures and fittings 10%
iv. The company's directors propose that preference share dividend be paid.
    - A dividend of 10% on the ordinary shares be paid.
    - And transfer an amount of shs. 500,000 to general reserve.

Required

Prepare Published Income Statement for the year ended 31st December 2020 **(10 Marks)**

QUESTION FIVE

a) Using an illustration in each case, discuss **three** users of financial statements (6 Marks)

b) Explain two limitations of financial statements (4 Marks)

QUESTION SIX

Explain each of the following terms

a) Authorized shares (2 Marks)
b) Issued share capital (2 Marks)
c) Share premium (2 Marks)
d) Preference share capital (2 Marks)
e) Ordinary share capital (2 Marks)