PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY

MAY-AUGUST 2020 SEMESTER

CAMPUS: ONLINE EXAM

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BCM107|BUA3213
COURSE TITLE: FINANCIAL ACCOUNTING II

EXAM DATE:

DURATION: 3 HOURS

TIME:

INSTRUCTIONS

- This examination script consists of S**ix (6)** questions.
- Answer question ONE and ANY other three Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE: COMPULSORY

a) Discuss two limitations of incomplete records (2) Marks)
b) Describe how the following items are treated in the final accounts
   i. Authorized capital (2 Mark)
   ii. Interest charged on drawing (2 Marks)
   iii. Retained profits for the year (2 Mark)
c) Distinguish between authorized share capital and issued share capital (2 Marks)

QUESTION TWO

(a) Explain three factors that would lead to the formation of a Partnership business. (3Marks)

(b) A and B own a grocery shop. Their first financial year ended on 31 December 2002.
The following balances were taken from the books on that date:

Capital:	A- £60,000;	B - £48,000.
Partnership salaries:	A - £9,000;	B - £6,000.
Drawings:	A - £12,000;	B - £13,400.

The firm's net profit for the year was £32,840.
Interest on capital is to be allowed at 10% per year.
Profits and losses are to be shared equally.

From the information above prepare the firm's
   i. appropriation account (4 Marks)
   ii. the partners' current accounts. (3 Marks)

QUESTION THREE

Beta Ltd is reviewing the financial statements of two companies, Zeta Ltd and Omega Ltd. The companies trade as wholesalers, selling electrical goods to retailers on credit. Their most recent financial statements appear below.

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 20X8

Zeta Limited *Omega Limited*

	£'000	£'000	£'000	£'000
Sales		4,000		6,000
Cost of sales				
Opening stock	200		800	
Purchases	3,200		4,800	
	3,400		5,600	
Less: closing stock	400		800	
		3,000		4,800
Gross profit		1,000		1,200
Expenses				
Distribution costs	200		150	
Administrative expenses	290		250	
Interest paid	10		400	
		500		800
Profit before tax		500		400
Taxation		120		90
Net profit for the period		380		310

Balance Sheets As At 31 March 2019

Zeta Limited *Omega Limited*

	Kshs'000	Kshs'000	Kshs'000	Kshs 000
Fixed assets				
Tangible assets				
Warehouse and office	1,200		5,000	
buildings	600		1,000	
Equipment and vehicles		1,800		6,000
Current assets	400		800	
Stock	800		900	
Debtor – trade	150		80	
- sundry	-		100	
Cash at bank	1,350		1,180	
Current liabilities	(800)		(800)	
Creditors – trade	(80)		(100)	
- sundry	(200)		-	
Overdraft	(120)		(90)	
Taxation		150		890
		1,950		6,890
		-		(4,000)
Long-term loan (interest 10%		1,950		2,890
pa)		1,000		1,600
		-		500
Share capital		950		790
Revaluation reserve		1,950		2,890
Profit and loss account				

Required:

a) Calculate for each company:
   I. Two liquidity Ratios (4 Marks)
   II. Two profitability Ratios (4 marks)

b) Based on the ratios you have calculated in (a), compare the two companies as regards their profitability and liquidity (2 marks)

QUESTION FOUR

The following is the trial balance of Transit Ltd at 31 March 2018

	Kshs	Kshs
Issued share capital (ordinary shares of Kshs1 each)		42,000
Leasehold properties, at cost	75,000	
Motor vans, at cost (used for distribution)	2,500	
Provision for depreciation on motor vans to 31 March 2017		1,000
Administration expenses	7,650	
Distribution expenses	10,000	
Stock, 31 March 2017	12,000	

Purchases	138,750	
Sales		206,500
Directors' remuneration (administrative)	25,000	
Rents receivable		3,600
Investments at cost	6,750	
Investment income		340
7% Debentures		15,000
Debenture interest	1,050	
Bank interest	162	
Bank overdraft		730
Debtors and creditors	31,000	24,100
Interim dividend paid	1,260	
Profit and loss account, 31 March 2017		17,852
	311,122	311,122

You ascertain the following:

i. All the motor vans were purchased on 1 April 19X5. Depreciation has been, and is to be, provided at the rate of 20% per annum on cost from the date of purchase to the date of sale.

ii. On 31 March 2018 one van, which had cost Kshs 900, was sold for Kshs. 550, as part settlement of the price of Kshs. 800 of a new van, but no entries with regard to these transactions were made in the books.

iii. The estimated corporation tax liability for the year to 31 March 2018 is Kshs. 12,700.

iv. It is proposed to pay a final dividend of 10% for the year to 31 March 2018.

v. Stock at the lower of cost or net realizable value on 31 March 2018 is Kshs. 16,700.

Required:

Prepare, without Working into account the relevant statutory provisions:

i. A profit and loss account for the year ended 31 March 2018 (5 Marks)
ii. A balance sheet at that date. (5 marks)

QUESTION 5

Explain various ways in which the following differ:

a) An income statement of a manufacturing business and of a trading business (3 Marks)
b) A statement of financial position of a partnership and of a limited company (3 Marks)
c) A debtor's ledger control account and a creditor's ledger control account (4 Marks)

QUESTION 6

a) State the objectives of the Global Initiative in Environmental Accounting. (5 Marks)
b) Discuss the limitations of Value added statements to an organization (5 Marks)