PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS LEADERSHIP

SEPTEMBER – DECEMBER 2017

CAMPUS: VALLEY ROAD

DEPARTMENT: BUSINESS

COURSE CODE: BUA3313

COURSE TITLE: FINANCIAL ACCOUNTING III

EXAM DATE: THURSDAY 7th DECEMBER 2017

TIME: 5.30PM-8.30PM

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- Answer Question **ONE** and any other **FOUR** questions

QUESTION ONE.

(a) Explain the meaning of the following terms

(i)	Share Capital	(2 Marks)
(ii)	Preference Share Capital	(2 Marks)
(iii)	Ordinary Share Capital	(2 Marks)
(iv)	Authorised Share Capital	(2 Marks)
(v)	Issued Share Capital	(2Marks)
(vi)	Called up Share Capital	(2 Marks)
(vii)	Uncalled Share Capital	(2 Marks)
(viii)	Paid up Share Capital	(2 Marks)
(ix)	Share Premium	(2 Marks)
(x)	Bonus Shares	(2 Marks)

(b) The following trial balance was extracted from the books of Musomi enterprises as at 31 March 2017:

	Sh.	Sh.
Freehold property, at cost (land Sh. 75,000)	125,000	
Plant, at cost	130,000	
Depreciation		62,000
Motor vehicle, at cost	53,000	
Depreciation – motor vehicle		30,500
Fittings and fixtures, at cost	38,600	
Depreciation – fittings and fixtures		11,790
20,000 Ordinary shares of Sh. 10 each authorized, issued and fully paid		200,000
Share premium		50,000
General reserve		120,000
Interim dividend paid		16,000
Cash at bank and in hand	33,570	
Accounts receivable and payable	130,540	57,430
15% Debentures		100,000
Discount received		3,640
Profit and loss account 1 April 1992		103,870
Purchases of raw materials	942,380	
Sales of finished goods		1,254,760

Inventories 1 April 1992:	103,870	
Raw materials	33,060	
Work in progress	57,660	
Finished goods	107,860	
Provision for doubtful debts		6,400
Bad debts	4,890	
Rates and insurance	9,430	
Wages	108,370	
Factory power	22,560	
Light and water	16,280	
Plant maintenance	10,970	
Salaries	90,000	
Returns of raw material	3,240	
Sales returns	1,360	
Advertising	8,580	
Transport expenses (Sales department)	24,320	
Bank charges	3,040	
General expenses	36,160	
	2,003,630	2,003,630

Required;

(c) Calculate two ratios in each of the following categories for Musomi enterprises.

(i) Profitability ratios (4 Marks)

(ii) Solvency ratios (4 Marks)

(iii) Efficiency ratios (4 Marks)

(iv) Shareholder ratios (4 Marks)

(v) Capital Structure ratios (4Marks)

(40 Marks)

QUESTION TWO.

The following Trial Balance was extracted from the books of Collins Ltd at 31 December 1995 .

Share capital authorized and issued:

	Shs	Shs
80,000 ordinary shares of 1/= each		80,000
Freehold premises at cost	59,000	
Motor vans1		
Balance 1 January 1995 at cost	15,000	
Additions less sale proceeds	650	
Provisions for depreciation of motor vans to 31 December 1994		6,750
Stock in trade 31 December 1994	13,930	
Balance at bank	6,615	
Provision for doubtful debts 31 December 1994		275
Trade debtors and creditors	12, 395	11,380
Directors' remuneration	4,000	
Wages and salaries	13,127	
Motor and delivery expenses	3,258	
Rates	700	
Purchases	108,440	
Sales		142, 770
Legal expenses	644	
General expenses	5, 846	
Profit and loss account: balance at 31 December 1994		2,430
	243,605	243,605

You are given the following information.:

i . Stock in trade, 31 December 2015, sh. 14,600.

ii. Rates paid in advance, 31 December 2015, sh. 140.

iii. Debts of Sh.1, 075 to be written off and the provision to be increased to sh. 350.

iv. On 1 January 2015, a motor van which had cost sh. 680 was sold for sh. 125.

v. Depreciation provided for this van up to 31 December 2014 was Sh.475.

vi. Provide for depreciation of motor vans (including additions) at 20% of cost.

vii. The balance on legal expenses account included Sh.380 in connection with the purchase of one of the freehold properties.

viii. The directors have decided to recommend a dividend of 5%.

Required:

With particular emphasis on presentation, prepare a published trading and profit and loss account for the year 2015, and a balance sheet at 31 December 2015, ignoring taxation. **(15 Marks)**

QUESTION THREE.

Mwanga and Sons Ltd is a small manufacturing firm owned by members of the family. The following trial balance was extracted from the books of the company as at 31 March 1993:

	Sh.	Sh.
Freehold property, at cost (land Sh. 75,000)	125,000	
Plant, at cost	130,000	
Depreciation		62,000
Motor vehicle, at cost	53,000	
Depreciation – motor vehicle		30,500
Fittings and fixtures, at cost	38,600	
Depreciation – fittings and fixtures		11,790
20,000 Ordinary shares of Sh. 10 each authorized, issued and fully paid		200,000
Share premium		50,000
General reserve		120,000
Interim dividend paid	16,000	
Cash at bank and in hand	33,570	
Accounts receivable and payable	130,540	57,430
15% Debentures		100,000
Discount received		3,640
Profit and loss account 1 April 1992		103,870
Purchases of raw materials	942,380	
Sales of finished goods		1,254,760
<u>Inventories 1 April 1992:</u>		103,870
Raw materials	33,060	
Work in progress	57,660	
Finished goods	107,860	
Provision for doubtful debts		6,400
Bad debts	4,890	
Rates and insurance	9,430	

Wages	108,370	
Factory power	22,560	
Light and water	16,280	
Plant maintenance	10,970	
Salaries	90,000	
Returns of raw material		3,240
Sales returns	1,360	
Advertising	8,580	
Transport expenses (Sales department)	24,320	
Bank charges	3,040	
General expenses	36,160	
	2,003,630	2,003,630

Additional information:

• Depreciation is to be provided for the year using the reducing balance method and applying rates of 15% on plant, 25% on motor vehicle and 10% on fittings and fixtures.

• Building is to be depreciated at the rate of 4% using the straight-line method. (Assume the whole building is used for manufacturing purposes).

• Provision for doubtful debts is to be adjusted to a figure equal to 10% of accounts receivable.

• Light and water, insurance and general expenses are to be apportioned in the ratio 4:1 between factory and administrative overheads.

	Sh.
Electricity and water accrued was	860
Insurance prepaid was	270
Rates prepaid were	780
Inventories were valued at:	
Raw materials	139,630
Work in progress	82,450
Finished goods	124,320

• Debenture interest has not yet been paid.

• The directors require provision for a final dividend which will bring the dividend for the year up to Sh. 2 per share.

Required:

Prepare in vertical form a Manufacturing, Trading and Profit and Loss Account for the year ended 31 March1983 and a Balance Sheet as at that date. **(15 marks)**

QUESTION FOUR.

a) Explain the term materiality in relation to financial statements and state two factors affecting the assessment of materiality. **(3 Marks)**

b) Explain the relevance of information in financial statements relevant to users. **(2 Marks)**

c) (i). Two characteristics contributing to reliability are 'neutrality' and 'prudence'. Explain the meaning of these two terms. **(4 marks)**

(ii). Explain how a possible conflict between the two terms above could arise and how that conflict should be resolved. **(1 Mark)**

d) One of the requirements of financial statements is that they should be free from material error. Suggest three safeguards, which may exist, inside or outside a company to ensure that the financial statements are free from material error. **(5 Marks)**

QUESTION FIVE.

Squid Ltd, whose head office is in Aberdeen, operates a branch in Dundee. All goods are purchased by head office and invoiced to and sold by the branch at cost plus 50%. Other than a sales ledger kept in Dundee, all transactions are recorded in the books in Aberdeen. The following particulars are given of the transactions at the branch during the year ended 30 June 2016.

	Ksh.
Inventory on hand, 1 July 2015, at invoice price	26,400
Accounts receivable on 1 July 2015	23,676
Inventory on hand, 30 June 2016 at invoice price	23,688
Goods sent from Aberdeen during the year at invoice price	148,800
Credit sales	126,000
Cash sales	14,400
Returns to head office at invoice price	6,000
Invoice value of goods stolen	3,600
Bad debts written off	888
Cash from debtors	134,400
Normal loss at invoice price due to wastage	600
Cash discounts allowed to debtors	2,568

Required;

(a) Branch inventory account, **(8 marks)**

(b) Branch total accounts receivable, **(7 marks)**

as they would appear in head office books for the year ended 30 June 2016

QUESTION SIX.

You are given the following financial statements for Harrington Ltd for the year ended 31 December 2013.

Income Statement for the year ending 31 December 2013

	Ksh	Ksh
Revenue		13,000
Less cost of goods		(6,000)
		7,000
Less Expenses		
Wages	4,000	
Other Costs	1,200	
Depreciation	400	
Interest	200	
		(5,800)
Profit for the year		1,200

Note: During the year, dividends of Ksh 100 were paid.

Statement of Financial Position as at 31 December

	2013		2013	
	Ksh	Ksh	Ksh	Ksh
Non-current assets at cost		9,000		7,600
Less accumulated depreciation		2,200		1,800
Net book value		6,800		5,800
Current assets				
Inventory	800		1,000	
Trade accounts receivable	300		400	
Cash	400		200	
		1,500		1,600
Total assets		8,300		7,400
Current liabilities				
Trade accounts payable	650		600	
Accrued wages	50		100	
	700		700	

Non-current liabilities				
Loan notes	1,800		2,000	
Total liabilities		2,500		2,700
Net assets		5,800		4,700
Equity				
Ordinary share capital		2,000		2,000
Retained profits		3,800		2,700
		5,800		4,700

Cash account for 2013

	Ksh		Ksh
Opening balance	200	Wages	4,050
Cash from customers	13,100	Other expenses	1,200
		Cash paid to suppliers	5,750
		Interest paid	200
		Cash purchase of non-current asset	1,400
		Cash paid to loan note holders	200
		Dividend paid	100
		Closing balance	400
	13,300		13,300

Required.

(a). State the three headings in the statement of cash flows as required by IAS 7.

(3 Marks)

(b). Give an example of the information to be included under each of the headings in an IAS-7 based statement of cash flows and indicate why this information might be useful.

(6 Marks)

©. Prepare a statement of cash flows for Harrington Ltd for the year ended 31 December 2013 as required under IAS 7 using the direct method. **(6 Marks)**