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**University Examinations 2015/2016**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT, BACHELOR OF BUSINESS ADMINISTRATION AND BACHELOR OF BUSINESS INFORMATION TECHNOLOGY

**BFC 3175: FINANCIAL ACCOUNTING II**

 **DATE: AUGUST 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30MARKS)**

1. Discuss the advantages and disadvantages of ratio analysis. (6 Marks)
2. Is it necessary for enterprises to provide for depreciation and for doubtful debts? Explain (4 Marks)
3. The following Trial Balance (TB) relates to Nyambene Slopes Hotel for the year ended 31st March 2016.

 Dr. Shs. Cr. Shs

 Cash 2,000,000 40,000,000

 Shs.20 per value share capital 40,000,000

 Stock 1.4.2015 4,000,000

 Purchases 34,450,000

 Directors fees 1,000,000

 Salaries and wages 3,710,000

 Equipments 14,500,000

 Debtors 6,850,000

 Creditors ­\_\_\_\_\_\_\_ 6,700,000

 Sales ­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­­\_\_\_\_\_\_\_ 43,000,000

 14% Bank loans 3 years \_\_\_\_\_\_\_ 6,000,000

 Discount allowed 400,000 \_\_\_\_\_\_\_

 Discount received \_\_\_\_\_\_\_ 300,000

 Share premium \_\_\_\_\_\_\_ 4,500,000

 General revenues \_\_\_\_\_\_\_ 4,000,000

 Profit and loss balance 1.4.14 \_\_\_\_\_\_\_ 5,000,000

 Bank 5,450,000

 Bad debts expenses 600,000

 Provision for bad doubtful debts \_\_\_\_\_\_\_ 500,000

 Land 10,000,000

 Buildings 1,000,000

 Stationeries and printing 320,000

 Insurance 720,000

 Motor vehicles 15,000,000

 Furniture \_\_\_\_\_\_\_\_

 Computers 2,000,000

 Miscellaneous incomes 5,000,000

 \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_

 115,000,000 115,000,000

Additional Information

1. Closing stocks as at 31.3.16 shs.8,500,000.
2. Accrued salaries shs.700,000
3. Prepaid insurance shs.220,000
4. Provision for doubtful debts to be maintained at the rate of 55 on debtors.
5. Interest on bank loan still outstanding as at 31.3.2016.
6. Directors proposed to transfer shs.1,500,000 to general reserves and pay 5% dividend on issued share capital.
7. Company policy is to depreciate its assets as follows:
8. Building 4% straight – line
9. Equipments 5% straight – line
10. Furniture and fittings 10% reducing balance
11. Motor vehicles 10% reducing balance
12. Corporate tax is at a rate of 30% on net profits.

Required:

1. Statement of comprehensive income for the year to 31st March 2016. (10 Marks)
2. Statement of financial position (10 Marks)

**QUESTION TWO (20 MARKS)**

1. On 1st April 2015 Kambakia Sports Club had the following assets

 Shs. 000

 Bank 2,000,000

 Bar stock 8,000,000

Motor vehicles 6,000,000

 Club buildings 125,000,000

Computers 500,000

On 30.6.2016 the club receipts and payments extracted were as follows:

Receipt shs.000 Payments shs.000

Subscription 38,800,000 Insurance & maintenance 10,000,000

Bar takings 60,000,000 Salaries 5,000,000

Loan from Faulu

Finance-Meru

Branch 55,000,000 General expenses 2,400,000

Facilities/grounds 2,000,000 Interest on loan 2,600,000

 Extension of sports buildings 80,000,000

Additional information

1. Bar stocks on 30.6.2016 shs.9,000,000
2. Subscription paid in advance as at 30.6.2016 were shs. 3,800,000
3. Motor vehicles to be depreciated at rate of 10% straight-line
4. Depreciation of club buildings 2% on cost. (extension not to be included for depreciation)

Required:

1. Bar trading account for the year to 30.6.16. (5 Marks)
2. Income and expenditure account, for the year ended 30.6.16. (9 Marks)
3. Do you agree that universities, schools, churches and members’ clubs are not profit making enterprises? Discuss. (6 Marks)

**QUESTION THREE (20 MARKS)**

1. Oburu and Kamau operate a partnership business. The partnership agreement provides for:
2. Profits and loss to be shared between Oburu and Kamu in the ratio of 4:3
3. Oburu to receive a salary of shs.780,000 per year for managing the business
4. Drawings to be charged an interest of 12% per year on the balances at the end of the year

The following balances relates to the firm as at 31st July 2015

 Shs.000

 Capital –Oburu 8,000

* Kamau 6,000

 Drawings – Oburu 450

* Kamau 600

 Creditors 5,080

 Net profit 1,930

 5 years KCB loan 5,000

 Current assets 8,300

 Bank overdraft 3,360

 Current account

 Oburu 1,000 (Cr)

 Kamau 700 (Cr)

 Fixed assets 22,070

Required:

1. Profit and loss appropriation account for the year to 31.7.17 (3 Marks)
2. Partnership current accounts. (5 Marks)
3. Statement of financial position 31.7.16. (8 Marks)
4. Explain at least four reasons why businessmen/women would want to run and operate business as a partnership. (4 Marks)

**QUESTION FOUR (20 MARKS)**

The following schedule of balances were extracted from the books of Meru Progressive Dairies Farmers Sacco factories as at 28th February 2016

Milk stocks as at 1.3.2015 Shs.000

Raw milk 13,550

Milk work in progress 650

Finished goods 12,800

Purchases and expenses for

the year to 28.2.16

Raw milk 237,650

Indirect expenses 1,850

Factory lighting and heating 53,230

Office lighting and heating 1,975

Printing & stationeries 1,264

Postage & telephone 520

Factory salaries 11,500

Office salaries 9,900

Factory insurances 450

Carriage of milk to the factory 97

Depreciation

Factory equipments

and machinery 5,000

Office equipment and

machinery 650

Office expenses 1,680

Advertising 850

Sales of finished goods 378,150

Other information/notes

1. Stock as at 28.2.2016

 Shs.000

Raw milk 24,000

Work in progress 7,957

Finished goods 18,050

1. Prepayments

Factory insurance 116

Other insurances 45

1. Accruals

Direct wages 1,342

Factory heating &

Lighting 197

Office heating &

Lighting 43

Factory power 350

1. Finished goods manufactured are transferred to the warehouse for distribution and selling, at cost plus 10%

Required:

Prepare a manufacturing account for the year to 28.2.2016 (20 Marks)

**QUESTION FIVE (20 MARKS)**

1. The Kenya Bankers Association has noted that the greatest challenge facing many Small and Medium Enterprises (SME) in Kenya is the absence of books of accounts and even where few books are kept they have scanty information and are incomplete (KBA report 2015)

Required:

1. Highlight the factors/issues that make SME’s in Kenya to have no books of accounts and even where they exist they are incomplete. (4 Marks)
2. Show, clearly and with examples why it is important for all enterprises both in the public and private sectors to keep proper books of accounts. (4 Marks)
3. Clearly explain the following accounting concepts:
4. Materiality (3 Marks)
5. Entity (3 Marks)
6. Accrual (3 Marks)
7. Prudence (3 Marks)