

CHUKA



UNIVERSITY

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EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF PROCUREMENT AND LOGISTICS MANAGEMENT

BPLM 271: INTERMEDIATE ACCOUNTING

STREAMS: Y2S1

DAY/DATE: MONDAY 4/12/2017

TIME: 2 HOURS

11.30 A.M – 1.30 P.M

INSTRUCTIONS:

- Answer question one and any other two questions

1. (a) Define what 'incomplete records' are and explain three reasons why a business entity would maintain incomplete records. [4marks]
- (b) Using examples, distinguish between capital reserves and revenue reserves. [4marks]
- (c) The comparative statement of financial of forum ltd at the beginning and end of the year 2017 is presented below.

Forum limited
Statement of financial position

	2017	2016
	Ksh	Ksh
Assets		
Equipment	37,000	22,000
Accumulated dep. On equipment	(17,000)	(11,000)
Cash	22,000	13,000
Receivables	106,000	88,000
Total assets	148,000	112,000
Equity and liabilities		
Share capital	100,000	80,000
Retained earning	28,000	17,000
Payables	20,000	15,000
Total equity and liabilities	148,000	112,000

The profit of ksh 34,000 was reported and dividends of ksh 23,000 were paid in 2017.

Required :

Prepare a statement of cash flows for the year 2017. [10marks]

(d) Explain the treatment of life membership subscriptions when preparing the financial statements of Not from profit organizations. [4marks]

(e) The financial statement extracted of Tahidi limited is provided below for the period ended 31st December 2016 and 2017.

Statement of comprehensive income extract

	2016	2017
	Ksh '000'	Ksh '000'
Sales	25,800	25,530
Cost of sales	<u>(15,000)</u>	<u>(18,140)</u>
Gross profit	10,800	7,390
	=====	=====

Statement of financial position extract

	Ksh '000'	Ksh '000'
Current assets		
Inventories	1,500	1,020
Receivable	3,900	3,150
Cash in hand	2,100	1,000
	7,500	5,170
Current liabilities		
Trade payables	1,270	1,190
	<u>850</u>	<u>980</u>
	2,120	2,170
	=====	=====

Required :

- (i) Quick ratio or acid test ratio. [3marks]
- (ii) Profit margin [3marks]
- (iii) Comment on the profitability of Tahidi limited. [2marks]

2. (a) Briefly explain the major classification of activities reported in the statement of cash flows. [6marks]

(b) Briefly explain any four limitations of ratio analysis. [4marks]

(c) The following trial balance was extracted from the books of PGK ltd as at 30 Jun 2017.

	Ksh '000'	Ksh '000'
Revenue		14,800
Cost of sales	10,200	
Distribution costs	1,080	
Administrative expense	1,460	
Land	10,500	
Building :cost	8,000	
Acc.depreciation (1 Jul 2016)		2,130
Plant & equipment : cost	12,800	
Acc. Depreciation(I Jul 2016)		2,480
Ordinary shares ksh 40 each(1 jul 2016)		10,000
Share premium		3,000
Revaluation earnings		3,000
Retained earnings		6,630
10% debentures	-----	<u>2,000</u>
	44,040	44,040
	=====	=====

Additional information:

- (a) Depreciation is provided on buildings and plant & equipment at 2% on straight line and 20% on reducing balance basis respectively.
- (b) The directors have recommended a final dividend of ksh 2 per share.
- (c) The debenture interest for the year is to be accrued as at 30th June 2017.
- (d) The estimated corporation tax for the year was estimated at 1 million.

Required :

Statement of income and statement of financial position for the year ended 30 June 2017.
[10marks]

3. (a) Briefly explain 3 distinctions between 'receipts and payment account and 'income and expenditure account'. [4marks]

(b) The following trial balance has been extracted from the books of Ann and Betty trading as Electronic enterprises' as at 30 September 2017.

	Ksh '000'	Ksh '000'
Sales		80,000
Purchases	50,000	
Opening inventory 1 October 2016	22,300	

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Administrative expenses	8,000	
Capital accounts: Ann		50,000
Betty		30,000
Current accounts : Ann	1,000	
Betty		4,000
Drawings accounts : Ann	3,000	
Betty	2,000	
Property, plant and equipment (cost)	66,000	
Accumulated depreciation (1 October 2016)		18,000
Trade receivables	27,000	
Balance at Bank	9,700	
Trade payables	-----	<u>7,000</u>
	189,000	189,000
	=====	=====

Additional information:

1. Inventory as at 30 September 2017 was valued at 12,300.
2. Depreciation is to be provided at the rate of 10% per annum on the cost of property, plant and equipment.
3. Allowance for doubtful debts is to be made at 2% of trade receivables.
4. The partnership agreement provided the following:
 - (i) Interest on capital balance is allowed at 8% per annum.
 - (ii) Interest on drawings is chargeable at 5% per annum.
 - (iii) Betty is to receive a salary of 4 million per annum.
 - (iv) The profit and loss sharing ratio for Ann and Betty is 3:2 respectively.

Required :

- (a) Income statement and appropriation account for the year ended 30 September 2017. [10marks]
- (b) Statement of financial position as at 30 September 2017. [6marks]
4. (a) Briefly explain the main contents of a partnership deed. [4marks]
- (b) The accountant of true sports club has extracted the following information from the books of account for the year ended 31 March 2017.

Receipts	Ksh	Payment	Ksh
Balance brought forward	288,000	Salaries and wages	254,000
Subscriptions:		New equipment	565,000
Year 2012/2016	249,000	Repairs & maintenance	124,000
2016/2017	2,050,000	Office expenses	415,000

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2017/2015	194,000	Printing & stationary	168,000
Dinner dance	723,000	Purchase of beverages	497,000
Beverage sales	657,000	Dinner dance expenses	315,000
Investments income	400,000	Refund of subscriptions	45,000
		Sports prizes	25,000
		Transport	248,000
		Investments	1,500,000
		Balance carried forward	<u>405,000</u>
	-----		4,561,000
	4,561,000		<u>4,561,000</u>
	=====		=====

Balances as at	31 march 2016	31 march 2017
	Ksh	Ksh
Furniture & fitting (net)	240,000	-
Equipment (net)	690,000	-
Investment at cost (net)	3,500,000	-
Subscription in arrears	300,000	375,000
Salaries accrued	68,000	72,000
Stock of beverages	162,000	184,000
Subscriptions in advance	85,000	-

Additional information :

1.depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively. No depreciation is charged in the year of asset purchase.

Required :

- (a) Income and expenditure account for the year ended 31March 2017. [12marks]
 (b) Statement of financial position as at 31 March 2017. [6marks]