

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF BACHELOR OF COMMERCE

BCOM 112: PRINCIPLES OF ACCOUNTING II

STREAMS: Y1S2 (ODEL)

TIME: 2 HOURS

DAY/DATE : TUESDAY 5 /10/ 2021

8.30 AM – 10.30 AM

INSTRUCTIONS TO CANDIDATES:

- Answer Question ONE and any other TWO questions
- DO NOT WRITE ANYTHING on the question paper.

QUESTION ONE

- a. Outline the content of a partnership deed [6 Marks]
- b. Hard, Soft and Rough are partners operating a business under the name DIVA traders.

The trial balance for the partnership as at 31st December 2020 was as follows:

		Sh. '000'	Sh. '000'
Capital Accounts	Hard		3,000
	Soft		1,500
	Rough		2,500
Current Accounts	Hard		90
	Soft	40	
	Rough	20	
Gross profit			3,086
Trade Receivables and payables		3,740	1,560
Insurance		224	

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Staff salaries	960	
Bank Balance	1,330	
Advertising	430	
Inventory	850	
Furniture and fittings (cost)	1,200	
Motor vehicle (cost)	2,300	
Provision for depreciation		
Furniture and fittings		200
Motor vehicle		460
Drawings		
Hard	153	
Soft	206	
Rough	179	
Discount allowed and received	80	96
Rent and rates	360	
Cash in hand	<u>420</u>	<u> </u>
	<u>12,492</u>	<u>12,492</u>

Additional information:

1. The advertising expense prepaid as at 31st December 2020 amounted to Sh.270,000.
2. Staff salaries outstanding as at 31st December 2020 were Sh.50,000
3. The partnership agreement provided the following:
 - (a) Interest on capital balances is allowed at 8% per annum
 - (b) Hard, Soft and Rough are entitles to salaries of Sh.180,000, Sh.140,000 and Sh.160,000 respectively.
 - (c) No interest is charged on drawings.
 - (d) Profit and losses are shared equally among the partners.
4. Depreciation is provided for motor vehicle at 10% on straight line basis while depreciation on furniture and fittings at 20% on reducing balance basis.

Required:

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|------|--|------------|
| i. | Income statement for the year ended 31 st December 2020. | [10 Marks] |
| ii. | Partners' current accounts as at 31 st December 2020 | [5 Marks] |
| iii. | Statement of financial position as at 31 st December 2020 | [9 Marks] |

QUESTION TWO

- a) 'The bank statement and cashbook balances should agree, but sometimes these balances may not agree'.

Discuss this statement and explain why it is important to prepare a bank reconciliation statement. [8 Marks]

- b) You have recently been employed in a medium size company and deployed in the accounts department. Your head of section has given you the following extract from the cashbook for the month of April 2019:

	Sh.		Sh.
Receipts during the Month	1,469,000	Balance brought forward (1.4.2019)	761,000
Balance carried forward (30.4.2019)	<u>554,000</u> <u>2,023,000</u>	Payments during the month	<u>1,262,000</u> <u>2,023,000</u>

The head of section further informs you that all receipts are banked intact and all payments are made by cheque. On investigation, you discover the following:

1. Bank charges and commissions amounting to Sh.136,000 entered on the bank statement has not been entered in the cashbook.
2. Cheques drawn amounting to Sh.267,000 had not been presented to the bank for payment.
3. Cheques received totaling Sh.762,000 had been entered in the cashbook and paid into the bank, but had not been credited by the bank until May 2019.
4. A cheque for Sh.22,000 had been entered as a receipt in the cashbook instead of a payment.
5. A cheque for Sh.25,000 had been debited by the bank by mistake.

6. A cheque received for Sh.80,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends receivable are credited direct to the bank account. During the month of April 2019. Dividends totaling Sh.62,000 were credited by the bank and no entries had been made in the cashbook.
8. A cheque drawn for Sh.6,000 had been incorrectly entered in the cash book as Sh.66,000.
9. The balance brought forward should have been Sh.711,000.
10. The bank statement as at 30 April 2019 showed an overdraft of Sh.1,162,000.

Required:

- (i) The adjusted cashbook as at 30 April 2019 [6 Marks]
- (ii) Bank reconciliation statement as at 30 April 2019 [6 Marks]

QUESTION THREE

- (a) Highlight FOUR differences between Non-profit making organizations and profit making organizations in relation to the preparation of their financial statements. [4 Marks]
- (b) The following balances have been extracted from the books of Bold Manufactures, small scale manufacturing enterprise, as at 31 December 2020:

		Sh.'000'
Stocks as at 1 January 2020:	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labor		28,000
Factory overheads:	Variable	16,000
	Fixed	9,000
Administrative expenses:	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380

Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (for sales deliveries):	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2020		48,000
Provision for unrealized profit at 1 January 2020		1,380
Motor Vehicle running costs		4,500

Additional Information:

- Stocks at 31 December 2020 were as follows: Sh. '000'

Raw materials	9,000
Work in progress	8,000
Finished goods	10,350
- The Factory output is transferred to the trading at factory cost plus 25% of factory profit.
- Depreciation is provided at the rates shown below on the original cost of Non-current held at the end of each financial year.

Plant and machinery	at 10% per annum
Motor vehicles	at 25% per annum
- Amounts accrued at 31 December 2020 for direct labor amounted to Sh.3,000,000 and rent and rates prepaid at 31 December 2020 amounted to Sh.2,000,000.

Required:

- Manufacturing, trading and income account for the year ended 31 December 2020 [9 Marks]
- Statement of Financial Position as at 31 December 2020 [7 Marks]

QUESTION FOUR

- (a) Explain the classification of cash flow activities and outline any four benefits derived from cash flow information. [10 Marks]
- (b) Explain the term imprest system as used in petty cash book. [4 Marks]
- (c) Differentiate between manufacturing and non-manufacturing costs giving two examples in each case. [6 Marks]

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