



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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CITY CAMPUS

MAIN EXAMINATION

MAY - JULY 2013 TRIMESTER

FACULTY OF COMMERCE

MBA - PROGRAMME

CAC 510: FINANCIAL ACCOUNTING

DATE: JULY 2013	DURATION: 3 Hours
INSTRUCTIONS: Answer ALL Questions	

- Q1. a) Clearly distinguish between the following forms of business organization with regard to their formation, ownership, management and their liability:-
- i) Sole proprietor
 - ii) Partnership
 - iii) Company **(10 marks)**
- b) Explain the differences in the following terminologies as used in financial accounting:
- i) Redeemable vs Participating preference shares
 - ii) Accruals vs prepayments of revenues
 - iii) Accumulated fund vs unrealized profits
 - iv) Receipts and payments account vs income and expenditure account. **(10 marks)**
- c) The following information was obtained from the records of Bamboo traders for the year 2011:

Opening stock	900,000
Closing stock	1,350,000
Purchases	5,850,000
Sales	13,500,000
Operating expenses	2,700,000
Capital	11,250,000
Current assets	2,250,000
Short term liabilities	900,000

Required:

Use this information to calculate the following accounting ratios:

- i) Mark-up percentage

- ii) Net profit ratio
- iii) Stock turnover ratio
- iv) Current ratio
- v) Quick ratio

(10 marks)

- d) CUEA Company Ltd invited applications for the issue of 6,000,000 preference shares of Sh. 40 each at a price of Sh. 48 per share, payable as follows:

- Sh. 20 on application
- Sh. 12 on allotment
- Sh. 8 on first call
- Sh. 8 on second call

Applications were received for 6,400,000 shares, and the directors decided to reject the excess applications and refund their money. All other monies were promptly received when due.

Required:

Show the relevant journal entries necessary to record the above issue of shares. (10 marks)

- Q2. The following schedule of balances was extracted from the accounting records of XYZee manufacturing limited, as at 31st August 2005.

	Shs.
Stock at 1 st September 2004:	
Raw material	135,500
Work in progress	65,000
Finished goods	128,000
Purchases and expenses for year 31st August 2005	Shs.
Raw materials	2,376,500
Indirect materials	18,500
Direct wages	532,300
Factory power	45,500
Factory heating and lighting	19,750
Office heating and lighting	9,300
Printing and stationery	12,640
Postage and telephone	5,200
Factory salaries	115,000
Office salaries	99,000
Factory insurances	12,100
Other insurances	4,500
Depreciation: Factory equipment and machinery	50,000
Office equipment	6,500
Office expenses	16,800

Advertising
Sales of manufactured produce to 31st 2005

8,500
3,781,500

The following additional information is relevant to the above accounting period:

i)	Finished goods manufactured during the accounting period are transferred from the factory at a manufacturing price of cost of production plus 10 percent.	
ii)	Stocks at 31 st August 2005	Shs.
	Raw materials	240,000
	Work in progress	79,870
	Finished goods	180,500
iii)	Prepayments at 31 st August 2005:	
	Factory insurances	1,160
	Other insurances	450
iv)	Accruals;	
	Direct wages	13,420
	Factory heating and lighting	1,970
	Office heating and lighting	430
	factory power	3,500

Required:

- | | | |
|----|-------------------------|------------|
| a) | Manufacturing account | (10 marks) |
| b) | Trading account | (5 marks) |
| c) | Profit and loss account | (5 marks) |

Q3. The following trial balance was extracted from the books of Karen Country Sports club at the close of business on 31st March 2008.

	Dr. Shs.	Cr. Shs.
Club premises	4,500,000	
Sports equipment	1,700,000	
Bar purchases and sales	3,180,000	5,090,000
Bar stock 1 April 2007	730,000	
Balance at bank	930,000	
Subscriptions received		2,880,000
Accumulated fund 1 April 2007		7,430,000
Salary of secretary	1,200,000	
Wages of staff	1,760,000	
Postages and telephone	290,000	
Office furniture	400,000	
Rates and insurance	410,000	
Cash in hand	20,000	
Sundry expenses	280,000	
	<u>15,400,000</u>	<u>15,400,000</u>

Notes:

- i) All bar purchases and sales were on a cash basis. Bar stocks 31 March 2008 – Shs. 820,000.
- ii) No subscriptions have been paid in advance but subscriptions in arrears at 31 March 2008 amounted to sh. 30,000.
- iii) Rates pre-paid at 31 March 2008 Shs. 20,000.
- iv) Provide for depreciation as follows:

Sports equipment	Shs. 200,000
Office furniture	Shs. 40,000
- v) The bar is responsible for 30% of all the club expenses.

Required:

- a) Bar trading account **(5 marks)**
- b) Income and expenditure account. **(8 marks)**
- c) Statement of affairs as at 31 March 2008. **(7 marks)**

Q4. After preparation of trading account for the year ended 31st December 2011, the following trial balance was extracted from the books of a partnership between Momo and Papa:

	Shs.	Shs.
General reserve		90,000
Debtors	108,000	
Gross profit		271,170
Bad debts	1,800	
Capital accounts – Momo		450,000
- Papa		270,000
Plant and machinery (original cost)	225,000	
Stock – 31 st December 2011	154,530	
Provision for Depreciation		
- Plant and machinery		73,800
- Furniture and fittings		16,200
- Motor vehicles		43,650
Current accounts – Momo		81,450
- Papa	52,200	
Power and lighting	38,700	
Creditors		201,150
Drawings – Momo	82,800	
- Papa	54,000	
Loan from C.D.F		225,000
Bank overdraft		41,850
Rent received		34,200
Goodwill	180,000	
Advertising	46,800	
Provision of bad debts		1,530
Cash in hand	900	
Rates and insurances	26,370	

Miscellaneous expenses	23,400	
Salaries and wages	184,500	
Office premises (at cost)	495,000	
Motor vehicles (at cost)	90,000	
Furniture and fittings (at cost)	36,000	
	<u>1,800,000</u>	<u>1,800,000</u>

The following additional information is available:

- i) A bill for water and conservancy for Sh. 24,000 has not been paid.
- ii) A bill for Shs. 720 is outstanding in respect of power and lighting.
- iii) Momo is entitled to a monthly salary of Sh. 2,250, which he has drawn each month. The total has been charged to salaries and wages account.
- iv) Partners share profits and losses in the ratio:
Momo $\frac{2}{3}$ Papa $\frac{1}{3}$
- v) Interest at 10% p.a. is due on loan from C.C.F.
- vi) Interest at 8% p.a. is to be allowed on capital accounts balances.
- vii) In providing for bad and doubtful debts, a doubtful debt for Shs. 270 had been omitted.
- viii) Depreciation is to be provided for as follows:
 - 10% on the net book value of plant and machinery.
 - 15% on the net book value of furniture and fittings.
 - 25% on the original cost of motor vehicles.

Required:

- a) Profit and loss account **(4 marks)**
- b) Partnership profit and loss appropriation account. **(6 marks)**
- c) Partners current accounts **(4 marks)**
- d) Balance sheet as at 31 December 2011. **(6 marks)**

END