MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER

SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF COMMERCE

COURSE CODE: BCM 2212
COURSE TITLE: FINANCIAL ACCOUNTING II

DATE: 27TH APRIL, 2018 **TIME: 0830 – 1030HRS**

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 6 printed pages. Please turn over.

QUESTION ONE

Kunii and Mooto were partners in a business of logging and saw milling sharing profits and losses equally. The partnership statement of the financial position as at 31 December 2014 was as follows:

	Sh. '000'	**Sh. '000'**
Non-current assets:		
Land and building (at cost)		93,250
Furniture (at cost less accumulated depreciation)		2,500
		95,750
Current assets		
Cash in hand		250
Accounts receivable		
Saw milling	32,000	
Logging	54,000	86,000
Inventory		
Saw milling	115,000	
Logging	56,250	171,250
		257,500
Total assets		353,250
Capital and liabilities		
Capital accounts: Kunii		131,500
Mooto		81,000
		212,500
Non-current liability:		
Loan		6,000
Current liabilities		
Bank overdraft		44,750
Creditors:		
Saw milling	77,000	
Logging	13,000	90,000
		134,750
Total capital and liabilities		353,250

Additional Information

1. The partners agreed that effective from 1 January 2015, the business would be taken over by two separate limited companies, Kunii Ltd. and Mooto Ltd. Kunii took over the saw milling business and Mooto Ltd. took over the logging business.

2. The providers of the loan agreed to accept 10% debentures in the new companies; Sh.3,600,000 being applicable to Kunii Ltd. And Sh.2,400,000 to Mooto Ltd.
3. Kunii Ltd. took over the land and buildings, furniture, cash and bank overdraft. The assets and the liabilities were transferred at book values and the partners were paid Sh.25,000,000 being goodwill for the saw milling business and Sh.20,000,000 for the logging business
4. On 1 January 2015, the purchase consideration was satisfied by the allotment of fully paid equity shares of Sh.10 each in the respective companies as shown below:
   - Kunii – 11,875,000 shares in Kunii Ltd. and the balance in Mooto Ltd.
   - Mooto – 7,960,000 shares in Mooto Ltd. and the balance in Kunii Ltd.
5. Kunii Ltd. Also raised a 12% debenture of Sh.50,000,000 on 1 January 2015 and paid-off the bank overdraft. The expenses incurred in raising the debenture amounted to Sh.1,750,000.
6. Kunii Ltd. And Mooto Ltd. Also issued 500,000 and 750,000 full paid ordinary shares of Sh.10 each respectively to B Ltd. And C Ltd. on 1 January 2015.
7. The formation expenses were paid by the respective companies as follows: Kunii Ltd. Sh.3,250,000 and Mooto Ltd. Sh.2,000,000.

Required:

a) Prepare business purchase accounts, partners' capital accounts, vendor account and bank accounts to record the above transactions. **(15mks)**

b) Opening statement of the financial position of Kunii Ltd. And Mooto Ltd. **(10mks)**

QUESTION TWO

a. The term 'reserves' is frequently found in company statements of the financial position

   Required:

   (i) Explain the meaning of 'reserves' in this context **(5mks)**

   (ii) Give two examples of reserves and explain how each of your examples comes into existence **(5mks)**

b. A company's issued share capital may be increased by a bonus (capitalization) issue or by a rights issue. Define 'bonus issue' and 'rights issue' and explain the fundamental difference between these two types of share issue. **(5mks)**

QUESTION THREE

Nyumbaa Safii Ltd. operates a housing development project. There was a fire on its premises on 31 January 2010 which destroyed most of the building, although stock to the value of Sh.3,960,000 was salvaged. The company has an insurance policy (with suitable average clauses) covering stock for Sh.600,000,000, buildings for Sh.800,000,000 and loss of profits (including standing charges for Sh.250,000,000 with a six months indemnity period).

An extract of the company's trading profit and loss account for the year ended 31 December 2009 is as shown below:

	Sh.'000'		**Sh.'000'**
Opening stock	412,500	Sales of houses	2,000,000
Purchases: materials	1,812,500	Closing stock	525,000
Insured standing charges	167,500	Interest on investment	5,000
Other expenses	80,000		
Net profit for the year	57,500		

Additional information:

1. The company's records show that the sale of housing units for January 2010 had been the same as for the corresponding month in the previous year at Sh.100 million.
2. Payments to creditors were Sh.106,680,000 and Sh.3,320,000 was owing to creditors at the end of January 2010.
3. Business was disrupted until the end of April 2010 during which period turnover fell by Sh.180 million compared to the same period last year.
4. It was agreed that ¾ of the value of buildings had been lost and that at the time of fire, buildings were worth Sh.1,000 million.

Required: Ascertain the amount of various claims to be submitted to the insurers **(15mks)**

QUESTION FOUR

Kanya Capis Limited issued additional 100,000 ordinary shares and 50,000, 8% preference shares on the following terms:

	Payable per share	
	Ordinary	**Preference**
	Shs.	**Shs.**
Application	2.50	2.50
Allotment (including premium)	3.50	2.00
First call 30 days after allotment	3.00	2.50
Second and final call (60 days)	2.00	2.50

The par values were Sh.10 and Sh.9 for the ordinary and preference shares respectively. By 1 August 2013, applications had been received for 200,000 ordinary shares and 40,000 preference shares. The directors rejected the application for 80,000 ordinary shares and refunded the monies on 15 August 2013, and the remainder allotted five shares for every six shares applied for. Surplus application monies were carried forward to allotment.

All allotment took place on 20 August 2013 and the due amounts were received by 31 August 2013. The first and second calls were received by the due dates except for 3,000 ordinary shares which the directors declared forfeited on 20 November 2013. All the forfeited shares were reissued as fully paid to another shareholder on 30 November 2013 for Sh.9 per share.

Assume that the number of shares outstanding prior to this additional issue amounted to:

Ordinary -300,000 shares of Sh.10 par

-50,000 7% preference shares of Sh.7 par

All these shares had been issued at par.

Required: Journal entries including cash necessary to record the share transactions **(15mks)**

QUESTION FIVE

Lithuli Electronics Ltd. commenced business on 1 April 2009, selling television sets both on a cash basis and by instalments. Hire purchase sales require a deposit of one-third of the cash selling price with the balance payable in 18 equal monthly instalments. No additional charge is made for this service. At the end of each financial year the firm takes credit for the profit instalment sales only in respect of the proportion represented by deposit and instalments actually reserved.

The following transactions took place during the two years ended 31 March 2010 and 2011:

		2010	2011
		Shs.	**Shs.**
Cash sales		9,606,600	13,131,000
Instalment sales		84,893,400	119,394,000
New TV sets purchased		69,300,000	75,119,700
Cash collections or instalment contracts:		**Shs.**	**Shs.**
Initial deposit		28,297,800	39,798,000
Monthly instalments	2000 sales	19,323,900	27,623,700
	2001 sales		25,182,000
Stocks at 31 March:			
New TV sets at cost		16,380,000	21,604,500

Required: Trading accounts in respect of cash sales for each of the years ended 31 March 2010 and 31 March 2011 respectively. **(15mks)**

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