

UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

**CODE: ACC 2104 COURSE: INTERMEDIATE ACCOUNTING I
FINAL ASSESSMENT**

BAM II (DAY & EVENING AUG INTAKE) Rubaga

DATE: Wednesday 20th /12/2023

Time allowed: 3 hours (9:30AM -12:30PM)

Instructions to candidates: Read the following before answering the questions

- 1) Clearly state the question numbers and sections attempted.
 - 2) Write neatly and show all workings.
 - 3) Every question attempted should be started on a new page
 - 4) Attempt **any 4 questions**, all questions carry equal marks.
 - 5) Attempting these questions is null & void for those with incomplete coursework
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Question one

- (a) After completing second year in the university, you were offered an opportunity to work as a teaching assistance in a diploma awarding institution. On accepting the offer, you were given to handle the topic "reconstitution of partnership firms". Giving three (3) points in each case, provide reasons that can explain the:
- i. Need to change profit sharing ratio of existing partners **(6 marks)**
 - ii. Decision of a partner to retire or withdraw from a partnership business **(6marks)**
 - iii. Necessity to admit a new partner **(6 marks)**
- (b) As a student grounded in ethics and well-informed in business management, explain 3 benefits of a written partnership agreement. **(7 marks)**

Question two

- (a) Describe the following:
- i. Three similarities between sale and consignment **(6marks)**
 - ii. The types of commission payable to a consignee **(6marks)**
- (b) Active stores of Kampala consigned on 1st January, 2020, 50 boxes of goods at Shs. 200,000 each to Real Traders of Koboko for sale on commission at 10% on gross sales. Active stores paid Shs. 500,000 for packing, freight and insurance. Real Traders took delivery of the goods on 11th January, 2020 and paid Shs. 150,000 for carriage. They sold 40 boxes of goods @ Shs. 250,000 and balance for Shs. 260,000 each. Their sales expenses amounted to Shs. 200,000. On 31st January, 2020, Real Traders forwarded an account sale together with a draft for the balance.

Required

Prepare the consignment account, consignees account and consignors account **(13marks)**.

Question three

- a) Identify and briefly explain two transactions that can take place between the partnership business and the partners **(3 marks)**
- b) Rex, May and Joy have been in partnership for five years sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{3}{10}$, and $\frac{1}{5}$ respectively. The partners agreed to pay salary of £ 1,000 each for Rex and May per year for their active involvement in running the business. The capital contribution of the partners was £ 20,000, £ 12,000 and £ 8,000 respectively for Rex, May and Joy. The partners are entitled to 5% interest per annum on their capital. The drawings made by the partners were: £ 2,000; £ 1,600 and £ 1,200 for Rex, May and Joy. The net profit made for the period was £ 7,000

Required:

Prepare the appropriation Account and Partner's Current accounts **(11 marks)**

- c) Sam and Bright are partners who share profits in the ratio of 3:2. Given below is their statement of financial position as on 1st April 2021.

Statement of financial position

Non-Current assets	(\$)	(\$)
Equipment		60,000
Furniture		<u>40,000</u>
		100,000
Current assets		
Inventory	40,000	
Accounts receivable	40,000	
Bank	<u>20,000</u>	<u>100,000</u>
Total assets		<u>200,000</u>
Equity and liabilities		
Capital:		
Sam	60,000	
Bright	<u>40,000</u>	100,000
Current liabilities		
Accounts payable		<u>100,000</u>
		<u>200,000</u>

On 1st April 2021 they admitted Piety into the partnership on the following terms:

1. Piety to bring in \$ 20,000 as capital contribution.
2. Goodwill was valued at \$ 10,000.
3. The value of inventory reduced to 36,000 while equipment increased to 66,000.
4. Furniture is revalued at \$. 30,000.
5. A provision for doubtful debts is to be created on debtors at 5%.
6. \$ 2,000 is to be provided for an electricity bill.
7. Motor vehicle worth \$ 10,000 (not on record) is to be taken into account
8. A creditor of \$. 4,000 is not likely to claim his money and is to be written off.

Required

The revaluation account and capital accounts of partners (11 marks).

Question four

- (a) Discuss five (5) reasons why entities use joint venture arrangement to do business (10 marks)
- (b) Ronny and Stephen entered into a Joint Venture for purchase and sale of electronic products, sharing profit & loss in the ratio of 3:2. They also agreed to receive 5% commission on their individual sales. The following information was extracted from their records.

On July 1st 2023: Ronny purchased goods worth \$190,000. On August 1st 2023, Ronny sent goods costing \$170,000 to Stephen and paid \$1, 410 for carriage. Stephen paid \$13, 410 cash to Ronny. On October 1st 2023, Stephen sold all the goods sent to him. Goods that cost \$7,000 were sold by Ronny. All sales by either party were made at a uniform profit of 40%. On

November 30th 2023, they decided to close the venture by transferring the balance of goods unsold in the store of Ronny at a cost of \$9, 000 to a wholesale dealer. They further disclosed that some goods were taken by Ronny at an agreed price of \$ 5,000.

Required

Prepare the necessary accounts in the books of both parties using Memorandum Joint Venture Account method (15 marks).

Question five

- Justify the use of departmental accounts in an organization when some departments do not generate revenue (3 marks)
- Redeemer is a business man who started operations on 1st January 2021, trading in two departments: Wood works and Furniture. The following information was extracted from his books on 31th December 2021.

Details	Debit (\$)	Credit (\$)
Capital		38,000
Drawings	11,000	
Sales : Wood works		50,000
Furniture		100,000
Purchases: Wood works	50,200	
Furniture	85,280	
Staff Salaries : Wood works	1,620	
Furniture	2,800	
Motor vehicle expenses	1,930	
Accounts receivable	9,696	
Accounts payable		4,492
General expenses	700	
Rent	2,500	
Lighting and heating	856	
Office salaries	1,920	
Motor vehicle at cost	2,400	
Balance at Bank	18,440	
Advertising	2,400	
Insurance	360	
Repairs and maintenance	390	
	192,492	192,492

Additional information

1. Information for Apportionment

- Business premises area covered is 500 sq. metres of which Wood works covers 200 sq. metres and the rest covered by Furniture department.
- General expenses, rent and repairs and maintenance are apportioned in proportion to the floor space used

- iii. Office salaries, advertising and insurance are considered to vary directly in relation to turn over.
 - iv. Lighting and heating to be apportioned in the ratio of 1:3; to Wood works and Furniture departments.
 - v. Motor vehicle expenses are apportioned to Wood works and Furniture departments in the ratio 1:4.
2. Prepaid amounts are: insurance \$ 120 and rent \$ 500
 3. Closing stock: Wood works \$ 12,600 and Furniture \$ 15,280
 4. Depreciation is provided on motor vehicle at 25% and apportioned at the ratio of 1:3

Required

- a. Statement of comprehensive income, indicating the performance of each department for the year ended 31st December 2021 (16 marks).
- b. Statement of financial position as on that date (6 marks).

Question six

Chris, Lydia and Mark have been operating a partnership business for ten years, sharing profits in the ratio of 3:2:1. After achieving the objective of establishing the business, they decided to dissolve the partnership on 31st December 2022. Their last statement of financial position prior to dissolution of the partnership is summarised below:

Statement of financial position as at 31 December 2022			
Non-Current assets	\$	\$	\$
Machinery			300,000
Building			72,000
Motor vehicles			<u>28,000</u>
			400,000
Current assets			
Inventory		22,000	
Accounts receivable	16,000		
Less provision for doubtful debts	(800)	15,200	
Bank		<u>2,400</u>	<u>39,600</u>
Total Assets			439,600
Equity and Liabilities			
Capital Accounts: Chris			140,000
Lydia			120,000
Mark			<u>100,000</u>
			360,000
Current Accounts: Chris		19,400	
Lydia		15,000	
Mark		<u>32,400</u>	<u>66,800</u>
Equity			426,800
Current Liabilities			
Accounts payables			<u>12,800</u>
Total Equity and Liabilities			439,600

Additional information

The following took place on dissolution: equipment not recorded in the books was sold for \$60,000, the building sold for \$48,000 and the inventory for \$24,000. All the three salon cars were taken over by the partners at agreed values as follows: Chris took one for \$8,000, Lydia one for \$12,000 and Mark one for \$6,000. The Machinery was taken over by Mark at an agreed value of \$ 324,000. The amounts collected from debtors was \$14,800. The creditors were discharged for \$12,560. The dissolution costs amounted to \$1,400.

Required:

- a) Realisation Account (12 marks)
- b) Partners' Capital accounts (8 marks)
- c) Bank Account (5 marks)

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