

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
DEPARTMENT OF ACCOUNTING & FINANCE

FINAL ASSESSMENT FOR SEMISTER II 2021/2022
(JANUARY 2021 INTAKE)

CODE: ACC 1201.

COURSE: FUNDAMENTAL ACCOUNTING II

GROUP: BAM 1, BSC. ACC& FIN I, BMICROFINANCE I
BPSCM1 & BIBM1

TIME ALLOWED: 3 HOURS

DATE: JANUARY, THURSDAY 20th, 2022 (9:30AM – 12:30PM)

Instructions

- 1) Write neatly and show all workings clearly.
- 2) Start every question on a new page
- 3) Clearly state the question number & sections attempted
- 4) Answer **any four** questions
- 5) All questions carry equal marks
- 6) Any form of cheating leads to automatic disqualification

QUESTION ONE

M. Mulungi is a sole trader with a small business. The trial balance extracted as on 31 December 2020 failed to agree. The credits exceeded the debits by Shs 3,740, 000. A detailed examination of the books was undertaken and the following matters were uncovered:

1. No entry had been made for Shs 118,000 Miscellaneous expenses paid in cash from the petty cash.
2. Discounts received of Shs 110,000 were debited to discounts allowed. The entry in the creditor's personal account was correct.
3. Sales returns of Shs 980,000 was treated correctly in the customer's account and credited to the sales returns account as Shs 890,000.
4. The total in the purchases journal of Shs 17,150,000 was debited to the purchases returns account as Shs 17,150,000.
5. The bookkeeper forgot to post the wages and salaries details for December 2020. No payment has yet been made to employees or the Revenue Authority. The relevant figures are as follows:

Wages and salary costs (gross)	Shs 10,150,000
PAYE	Shs 3,045,000

6. A sales invoice of Shs 1,050,000 was entered in the sales Journal as Shs 950,000.
7. A payment for building repairs of Shs 1,045,000 was credited to the Buildings account and credited to the cash account.
8. A cash receipt of Shs 500,000 from a credit customer, Nixon, was entered in his account as Shs 50,000 and in the cash book as Shs 50,000.
9. A purchase of goods for Shs 640,000 from W. Emma was entered in I. Emma's account.

Required:

- a) Prepare the journal entries, (Narratives not required), necessary to correct the above errors. **(13 marks)**
- b) Show the suspense account duly balanced. **(5 marks)**
- c) Prepare a statement to show the effect on profit (if any) of correcting each of the above errors; assume that the loss before the adjustments was Shs 41,870,000. **(7 marks)**

QUESTION TWO

- a) Explain the merits that an organization would get by keeping control accounts **(8 marks)**.

- b) The information below was extracted from the books of JAJA, a sole trader for the month of December 2020.

			Shs'000
Sales ledger balances	01/12/20	DR	220,000
		CR	6,200
Purchases ledger balances	01/12/20	DR	1,400
		CR	196,000
Receipts from credit customers			3,100,000
Payments to creditors			2,038,000
Sales			4,300,000
Credit purchases			2,400,000
Cash purchases			44,840
Interest charged by a creditor for late payment of balance due			1,900
Dishonored cheque received from debtors			14,240
Discounts received			42,600
Discounts allowed			34,400
Returns inwards			190,000
Returns outwards all on credit			64,000
Bad debts written off			65,120
Refunds paid to debtors			4,460
Interest charged to debtors			600
Opening allowance for debtors			73,500
Sales ledger balances	31/12/20	CR	34,000
Purchases Ledger balances	31/12/20	DR	18,240

Additional Information

- 90% of sales are on credit and 95% of sales returns are on credit
- An opening debtor's balance of Shs. 13,500,000 was omitted from the opening debtors debit balances as at 1st December 2020.
- B-Alex was both a customer and a supplier. He had a balance of Shs. 27,000,000 in the purchase ledger and Shs. 22,380,000 in the sales ledger. The contra entry was made in B-Alex's account but no entry was made in the control accounts.

Required:

Prepare the sales ledger and purchases ledger control accounts for the month of December, 2020 from the above information. **(17 Marks)**

QUESTION THREE

- Clearly explain the distinction between Capital expenditure and revenue expenditure, give at least four points. **(8 marks)**
- Explain how profits will be affected if:
 - A revenue expenditure is treated as a capital expenditure **(2 marks)**

- ii. A capital expenditure is treated a revenue expenditure (2 marks)
- c) Paulina is a progressive sole trader who wants to venture in manufacturing industry and has purchased some property on which to construct a factory building. The following information relates to the transaction
- Cost of the property - shs. 760,000,000
 - Fee to transfer the deed - 2% of the sale price
 - Title insurance fee - shs. 2,400,000
 - Real estate broker's commission- 5% of the sale price
 - Grading and preparing for construction- shs. 50,400,000

Required:

- (a) Determine the cost to be assigned to the land based on the above facts. (8marks)

In addition to the above facts, assume that there was an old building on the property that had to be demolished before construction could begin. When the property was purchased, it was known that the building would have to be brought down. What would be the cost of the land considering the following additional information? (5marks)

Details	Amount (shs)
Portion of cost of property assignable to the old building	270,000,000
Cost to demolish the old building	90,000,000
Proceed from sale of material salvaged from the old building	37,000,000

QUESTION FOUR

- Discuss three main features of income and expenditure account (6 marks).
- The following Receipt and Payment Account was obtained from the records of Babington Cricket Club for the year ended 31st December, 2019.
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Receipt and Payment Account for the ended 31st December, 2019

Receipts	Amount (£)	Payments	Amount (£)
Balance b/d	41,000	Salaries and Wages:	
Subscriptions:		2018	4,800
2018	7,200	2019	83,200
2019	337,600		88,000
2020	12,000	Sundry expenses	37,000
	356,800	Freehold land	60,000
Entrance fees	16,000	Stationery	16,000
Locker rent	58,000	Rates	24,000
Revenue from	48,000	Refreshment expenses	37,500
refreshment	56,000	Telephone charges	4,000
Income from investments		Investments	250,000
		Audit fee	6,000
		Balance c/d	53,300
	<u>575,800</u>		<u>575,800</u>

The following additional information is available:

1. There are 1800 members each paying an annual subscription of £ 200; £ 8,000 was in arrears for 2018 as on January 1, 2019.
2. On December 31, 2019 the rates were prepaid to March 2020; the charge paid every year being £ 24,000.
3. There was an outstanding telephone bill for £ 1,400 on December 31, 2019.
4. Outstanding miscellaneous expenses as on December 31, 2018 totaled to £ 2,800.
5. Stock of stationery as on December 31, 2018 was £ 2000; on December 31, 2019, it was £ 3,600.
6. On December 31, 2018, the value of Building was £ 400,000 and this is subject to depreciation @ 2.5% p. a.
7. Investment on December 31, 2018 was £ 800,000.
8. On December 31, 2019, income accrued on investments purchased during the year amounted to £ 1,500.

Required:

Prepare Income and Expenditure Account for the year ended December 31, 2019 and statement of financial position as on that date **(19 marks)**.

QUESTION FIVE

- a) Describe **three** differences between receipts and payments account and a cashbook. **(6 marks)**
- b) Explain the meaning of "incomplete records." Discuss at least 4 salient features of incomplete records. **(11 marks)**
- c) MR. Nsubuga does not keep proper books of account. However, he informs you of the following after tax authorities gave him two days to submit his profit statement for 2021 or risk closure of his business.

Available information kept in an exercise book for the two years.

	31 st Dec. 2020	31 st Dec. 2021
	£	£
Cash	9,600	14,000
Debtors	24,000	40,000
Stock	80,000	90,000
Machinery	10,000	10,000
Creditors	60,000	40,000
Furniture	8,000	8,000

Other useful information obtained for 2021:

1. During the year Nsubuga introduced £12,000 as additional capital and withdrew £8,000 for personal use.
2. Provide depreciation on furniture at 10% and on Machinery at 5%.

Required

Prepare a statement showing the profit or loss made by Nsubuga for the year ended 31st December, 2021. (8 marks)

QUESTION SIX

The following data were obtained from the books of BAM Ltd, a manufacturer as at 31 December, 2021:

	Shs'000'
Raw Material purchases	200,000
Indirect materials	20,000
Carriage on materials	2,000
Direct labor cost	450,000
Raw material returns	4,500
Carriage outwards	30,000
Other overheads	135,000
Lighting	35,000
Power for production Machine	145,000
Indirect labor cost	45,000
Office salaries	77,000
Administration expenses	125,000
Sales	4,210,000
Advertising	14,000
Provision for bad debts 1/1/2021	14,500
Bank charges	2,950
Delivery van expenses	8,500
Discounts allowed	4,500
Depreciation:	
Motor Vehicle	2,500
Furniture	3,500
Fittings	6,500

The following additional information is also provided:

1. Inventory	1 January 2021	31 December 2021
	Shs'000'	Shs'000'
Raw Materials	50,000	35,000
Work in Progress	25,000	10,000
Finished goods	20,000	23,000
2. The production machine had the following balances at 1 January 2021		
	Shs'000'	
Cost	800,000	

Accumulated Depreciation	<u>464,000</u>
Net book Value	<u>336,000</u>

A machine that had cost Shs. 100 million on 1 February, 2019 was disposed off during the year at Shs 32 million. This transaction had not yet been recorded in the books of BAM Ltd. BAM's depreciation policy is to depreciate production machines at 40% per year on reducing balance basis.

3. Shs 150 million payable for power for the productions machines had not yet been accounted for
4. Lighting expenses are to be apportioned as follows: factory $\frac{3}{4}$, Office $\frac{1}{4}$
5. 70% of other overheads relate to the office while the balance relates to factory
6. Bad debts should be increased to shs. 16million
7. Advertising expenses of shs.1 million were prepaid

Required:

Prepare BAM Ltd.'s;

- (a) Manufacturing account(8 Marks)
- (b) Statement of profit or loss and other comprehensive income for the year ended 31 December, 2021 (17 Marks)

THE END
GOOD LUCK