UGANDA MARTYRS UNIVERSITY
NKOZI/LUBAGA CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

SEMESTER TWO 2018/19

BAM II LUBAGA

COURSE UNIT: COST ACCOUNTING

Date: 7th May, 2019

Time allowed: 3hours

Instructions to Candidates:

Read the following before answering the examination questions.

1) Do not write anything on this question paper.
2) Write neatly and show all workings clearly.
3) Start every question on a new page
4) Clearly state the question number & sections attempted
5) Answer **any four** questions, all questions carry equal marks

QUESTION ONE

KK Limited was formed with authorized capital of shs 600,000 divided into 2,000 shares of shs 300 each. The company decided to issue 1,000 shares to the public for subscription payable in the following installments;

Application shs 150 per share (including premium)

Allotment shs 100 per share

1st & final call shs 100 per share

Since funds required for the company activities were substantial, it also issued 300 6% debentures at shs 500 each. The debentures were issued payable as follows;

Application shs 200

Allotment shs 300 (including premium)

1st & final call shs 50

The shares were oversubscribed by 500 shares and it was decided to refund application money for 300 shares, while allotment was made for the remaining applicants pro-rata. All the allotment money and calls money were received in full.

For debentures, applicants were received for 400 debentures and money for 50 debentures was refunded. The remaining applicants were scaled down and allotment was made to applicants on pro-rata.

Required:

a. Open up and post into necessary ledger accounts the above transactions. **(20 marks)**
b. Prepare an extract of the Statement of Financial Position for KK Ltd. **(5 marks)**

QUESTION TWO

The following trial balance is extracted from the books of All Souls Limited as at 31st December 2016

All Souls Limited Trial balance as at 31st December 2016

	Dr ($)	Cr ($)
10% Preference share capital		20,000
Ordinary share capital		70,000
10% Debentures (Repayable in 2019)		30,000
Goodwill at cost	15,500	
Buildings at cost	95,000	
Equipment at cost	8,000	
Motor vehicles at cost	17,200	
Provision for depreciation; - Equipment (1.1.2016) - Motor vehicles (1.1.2016)		 2,400 5,160
Stock at 1.1.2016	22,690	
Sales		98,200
Purchases	53,910	
Carriage inwards	1,620	
Salaries and wages	9,240	
Director's remuneration	6,300	
Motor expenses	8,120	
Rates and insurance	2,930	
General expenses	560	
Debenture interest	1,500	
Debtors/Creditors	18,610	11,370
Bank	8,390	
General reserve		5,000
Share premium		14,000

Interim Ordinary dividends paid	3,500	
Profit and loss account 31.12.2015		16,940
	273,070	273,070

The following are the new developments;

i. Stock at 31.12.2016 was $27,220
ii. Depreciate motor vehicles $3,000 and Equipment $1,200
iii. Accrued debenture interest $1,500
iv. Provide for preference dividends $2,000 and final ordinary dividends of 10%
v. Transfer $2,000 to general reserve
vi. Write off goodwill $3,000
vii. Authorized share capital is $20,000 in preference shares and $100,000 in ordinary shares
viii. Provide for corporation tax $5,000

Required: Prepare the company's income statement for the year ended 31.12.2016 and the balance sheet as at 31.12.2016. **(25 marks)**

QUESTION THREE

a. Briefly explain the relevancy of Ratio Analysis after the preparation of the Financial Statements. **(5 Marks)**
b. The following accounts are of two companies that each sell sports goods

Statements of Comprehensive Income for the year ended 30th June 2018				
	Jesse Company (shs)		**Kessie Company (shs)**	
Sales		360,000		250,000
Less: Cost of goods sold				
Opening stock	120,000		60,000	
Add: Purchases	268,000		191,500	
	388,000		251,500	
Less: Closing stock	(100,000)	(288,800)	(64,000)	(187,500)
Gross Profit		**72,000**		**62,500**
Wages	8,000		11,300	
Directors Remuneration	12,000		13,000	

Other expenses	8,800	28,800	3,200	27,500
Net Profit		**43,200**		**35,000**
Add: retained profits from last year		16,800		2,000
Total for Appropriation		**60,000**		**37,000**
Less: Appropriations				
General Reserve	8,000		2,000	
Dividends	40,000	48,000	30,000	32,000
Retained profits carried forward		**12,000**		**5,000**

Statements of Financial Position as at 30th June 2018

	Jesse Company		Kessie Company	
Fixed Assets	shs	shs	shs	shs
Fixtures at cost	200,000		180,000	
Less: Depreciation to date	(50,000)	150,000	(70,000)	110,000
Motor vans at cost	80,000		120,000	
Less: Depreciation to date	(30,000)	50,000	(40,000)	80,000
		200,000		190,000
Current assets:				
Stock	100,000		64,000	
Debtors	60,000		62,500	
Bank	40,000		3,500	
	200,000		130,000	
Less: Current liabilities				
Creditors	(50,000)	150,000	(65,000)	65,000
Net current assets		**350,000**		**255,000**
Financed by:				
Issued share capital		300,000		200,000
General reserve		38,000		50,000
Profit and loss		12,000		5,000
		350,000		**255,000**

Required:

Calculate the following ratios (to one decimal place) for the two companies and compare the results:

(i) Current ratio **(3 marks)**

(ii) Stock turnover **(3 marks)**

(iii) Creditors turnover in days **(3 marks)**

(iv) Net Profit Margin **(3 marks)**

(v) Rate of return on shareholders' funds. **(3 marks)**

QUESTION FOUR

a. Explain briefly the benefits a business entity will enjoy upon conversion into a company. **(5 marks)**
b. The following is the balance sheet of Peter and Paul, equal partners in a wholesale business on 4th July 2018.

Peter & Paul Partnership Statement of Financial Position as at 4th July 2018

	Shs	Shs	Shs
Non- Current Assets			
Investments			370,000
Motor Vehicles			320,000
Furniture and fittings			250,000
			940,000
Current Assets			
Stock		690,000	
Debtors		1,140,000	
Bank		390,000	
		2,220,000	
Less: Current Liabilities			
Creditors	640,000		
Accruals	20,000	660,000	1,560,000
			2,500,000
Financed by:			
Capital			
- Peter		1,500,000	
- Paul		1,000,000	**2,500,000**

On this date (4th July 2018), their business is taken over by Leeds Ltd on the following terms;

1. All assets except cash and bank and all liabilities except accruals are to be taken over by the company

2. The assets to be taken over are revalued as follows;

	Shs
Goodwill	500,000
Motor vehicles	300,000
Furniture and fittings	100,000
Investments	540,000
Stocks	900,000
Debtors	600,000

Creditors as per the balance sheet

3. The purchase price will be satisfied by issue of 16,000 shs 100 each ordinary shares at 20% premium as fully paid and the balance in cash.

4. In addition to issuing shares to partners, the company offered 10,000 shs 100 each ordinary shares at 25% premium for public subscription. All shares were taken up and paid for in full.

5. The company incurred formation (preliminary) expenses of shs 100,000 and decided to write them off against share premium.

<u>Required:</u>

a. Compute the purchase consideration. **(3 Marks)**

b. Open up, post into and close off the following ledger accounts;

- Vendors account **(3 Marks)**
- Ordinary Share Capital account **(3 Marks)**
- Formation expenses **(3 Marks)**
- Bank account **(3 Marks)**

c. Prepare Leeds Limited opening Statement of Financial position as at 4^{th} July 2018. **(5 Marks)**

QUESTION FIVE

a. Briefly explain any 5 objectives of Branch Accounting. **(10 marks)**

b. A firm has a Head Office and a Branch, and the records were partly kept by Head Office and Branch. And the following were the transactions for the Branch for the Month of January, 2013:

The Balances were as follows:

Balance	Opening Shs`000`	Closing `000`
Stock	18,000	12,000
Debtors	14,000	
Bank (Branch)	19,000	
Bank (Head Office)	20,000	

The firm's transactions were as follows:

Goods from Head Office	44,000
Goods returned to Head Office	6,000
Cash Sales	25,000
Credit Sales	56,000
Returns from customers	2,000
Payments from debtors	40,000
Cash remitted to Head Office	70,000
Discount allowed	2,000
Bad debts	1,000
Wages and other expenses	5,000
Head Office paid salaries and admin expenses related to Branch	10,000

<u>Required:</u>

- Branch Stock account **(3 marks)**
- Branch Debtors account **(3 marks)**
- Branch Bank account **(3 marks)**
- Goods sent to Branch account. **(3 marks)**
- Branch P & L account **(3 marks)**

QUESTION SIX

a. International Accounting Standard (IAS) 7 prescribes the format of the Statement of Cash flows and requires that cash flows be classified into Operating, Investing and Financing activities. Briefly explain each one of these categories of activities. **(6 marks)**

b. The Balance Sheets of Elliot Ltd are as follows:

	31/12/2017	**31/12/2016**
	Shs	**Shs**

Non - Current Assets	**000'**	**000'**
Plant and Machinery at Cost	26,100	28,500
Less Depreciation	13,010	11,450
	13,090	17,050
Current Assets		
Inventory	16,250	18,570
Debtors	14,190	8,470
Provision for Bad debts	(800)	(420)
Cash and Bank Balances	3,700	4,060
Total Assets	**46,430**	**47,730**
Financed by Equity & Liabilities		
Capital	33,590	35,760
Net profit	11,070	10,240
Cash introduced	600	-
Drawings	(8,560)	(12,410)
	36,700	33,590
Liabilities		
Creditors	5,730	4,140
Loan from Stanbic Bank	4,000	10,000
Total Equity and Liabilities	**46,430**	**47,730**

Additional Information:

a) Machinery with a book value of Shs 1,350,000 was sold for Shs 900,000

b) Depreciation written off on Machinery during the year was Shs 2,610,000

Required:

Prepare Elliot Ltd's Statement of Cash flows for the year ended 31st Dec, 2017. **(19 Marks)**

END