Diana

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FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

BAM 2 SEMESTER TWO 2017/18

COURSE UNIT: INTERMEDIATE ACCOUNTING II

DATE: Thursday, 3rd May 2018

Time allowed: 4:00pm-7:00pm

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 mark

QUESTION ONE

Distinguish between the following terms as used in accounting **(5 marks each)**

(i) Companies limited by share and companies limited by guarantee
(ii) Oversubscription of shares and calls in advance
(iii) Capital reserves and Revenue reserves
(iv) Issued share capital and share premium
(v) Preference shareholders and ordinary share holders

QUESTION TWO

a) What is the meaning of forfeiture of shares? Explain the consequences of a valid forfeiture. **(8 marks)**

b) Elegant products Ltd is a newly formed company and planned to raise more funds for the purchase of a new machine for cosmetic production. The directors resolved to issue 5 million ordinary shares with a nominal value of 1000/= per share at a price of Shs. 1250 each payable as follows:

On application	Shs. 600 (including premium)	600 X 1250
On allotment	Shs.350	800X
On first and final call	Shs.300	

Applications were received for 6 million shares. However, applications for 200,000 shares were rejected and their money refunded. The excess money for successful applicants was carried forward and adjusted against amount due on allotment. The allotment money balance was received in full. All money due on first and final call was received except for 100,000 shares whose holder failed to pay. These shares were forfeited and later re-issued at shs.800 each to KAWA Ltd

Required

Prepare the necessary ledger accounts to record the above transactions and show an extract of the statement of financial position **(17 marks)**

QUESTION THREE

The following trial balance was extracted from the books of BAMUZA Ltd as at 31st December 2016

BAMUZA LTD
Trial balance
As at 31st Dec 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)		2,400

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Motor vehicles (1.1.2016)		5,160
Inventory 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 dividend paid	3,500	
Retained profits 31.12.2015		16,940
	273,070	273,070

Additional information

i. Inventory at 31.12.2016 was $27,220 CF

ii. Depreciate motor vehicles at $3,000 and Equipment $1,200

iii. The dividend on preference shares was proposed to be paid as well as a final dividend of 10% on the ordinary shares

iv. Transfer $2,000 to general reserve

v. Write off goodwill $3,000

vi. Authorized share capital is $20,000 in preference shares and $100,000 in ordinary shares

vii. Provide for corporation tax at $5,000

Required:

Prepare the company's Statement of comprehensive income for the year ended 31.12.2016 and the statement of financial position as at 31.12.2016. **(25 marks)**

QUESTION FOUR

(a) REJOICE Company limited was formed in 2013 with head office in Kampala. The company opened a branch in Arua in 2016 to expand its market to south Sudan. The financial year of the company ends on 31st October. The following trial balance was obtained from the record books of REJOICE Company limited as on 31/10/2017 for the head office and Arua branch.

	Kampala		Arua	
	Debit (£)	Credit (£)	Debit (£)	Credit (£)
Property, plant and equipment	766,000		76,000	
Share capital		600,000		
Administrative costs	270,000		18,000	
Branch current account	92,000			

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Head office current account				48,000
Cash at bank	38,000		4,000	
Accounts payable		45,000		10,000
Accounts receivable	30,000		40,000	
Goods sent to branch		332,000		
Provision for unrealized profit		3,000		
Retained profits		56,000		
Distribution cost	60,000		24,000	
Purchases	450,000		308,000	
Sales		700,000		430,000
Stock at cost	30,000		18,000	
	1,736,000	**1,736,000**	**488,000**	**488,000**

Additional information

1) Goods purchase by head office and sold to the branch are transferred at cost plus 20%
2) Stock on 31/10/2017 was valued as follows
   - Head office at cost £40,000
   - Branch at selling price £48,000
   - Goods in transit to branch at cost £ 24,000
3) On 31/10/2017 the branch had transferred £ 20,000 to the head office bank account but on that date no record had been made in the head offices` books.

Required

i. Statement of comprehensive income for the head office and the branch for the year ended 31/10/2017**(12 marks)**

ii. A combined statement of financial position for the head office and the branch as at 31/10/2017 **(10 marks)**

(b) Briefly explain the difference between branch stock account and branch stock adjustment account **(3 marks)**

QUESTION FIVE

a) Briefly explain the classification of items on the face of the statement of cash flows as required by IAS 7 **(5 marks)**

b) RAY Company Ltd was formed in 2014 to supply the much needed chemical products. The following financial statements were obtained from the books on 31/10/2016

Statement of financial position
As at October, 31st 2015 and 2016

	2015 ($)		2016 ($)	
Non-current assets				
Land and Building		250,000		350,000
Plant and equipment	170,000		240,000	
Less Accumulated depreciation	86,000	84,000	96,000	144,000
Goodwill		110,000		55,000

		444,000		549,000
Current assets				
Inventory	175,000		250,000	
Accounts receivable	95,000		75,000	
Prepaid expenses	22,000		22,000	
Bank	108,000		78,000	
Cash	10,000	410,000	15,000	440,000
Total assets		854,000		989,000
Financed by: equity and liabilities				
Ordinary share at $ 1 each		400,000		400,000
Share premium		320,000		320,000
General reserves		20,000		20,000
Retained profits		29,000		34,000
Share holders equity		769,000		774,000
Non-current liabilities				
10% Debentures				100,000
Current liabilities				
Accounts payable	45,000		73,000	
Proposed dividend	25,000		20,000	
Interest Accrued			10,000	
Corporation Tax	15,000	85,000	12,000	115,000
		854,000		989,000

Statement of comprehensive income
For the year ended 31/10/2016

	($)	($)
Operating profit		62,000
Less interest payable		10,000
Profit before tax		52,000
Less Corporation tax		12,000
Profit after tax		40,000
Add retained profits b/d		29,000
		69,000
Less appropriation:		
Dividend: Interim	15,000	
Proposed	20,000	35,000
Retained profits c/d		34,000

Additional information

a. Plant and equipment which originally cost $ 135,000 was sold for $ 30,000 on 1st November 2015

b. Depreciation of $70,000 was provided against plant and equipment held during the year.

Required

Prepare a cash flow statement for the year ended 31st October 2016 using Indirect Method. (20 marks)

QUESTION SIX

(a) Write short notes on the following as used in accounting

i. Purchase price **(4 marks)**

ii. Reasons why partnerships may convert into a limited company **(6 marks)**

(b) Mercy, Aaron and Oscar were in partnership sharing profits equally. The statement of financial position of the partnership as at 31.12.2014, was as follows:

STATEMENT OF FINANCIAL POSITION AS AT 31.12.2014

Noncurrent assets		£. "000"
Land and Building		1,200
Plant and Machinery		2,000
		3,200
Current assets		
Inventory	3,000	
Accounts receivable	1,000	4,000
Total assets		7,200
Capital and Liabilities		
Capital accounts		
Mercy	500	
Aaron	1,000	
Oscar	(300)	1,200
Noncurrent Liabilities		
Loan from Centenary Bank		5,000
Current Liabilities		
Accounts payable		1,000
		7,200

On 31st.December 2014, the partners agreed to convert the partnership into a limited company, MAO Ltd on the following terms.

(i) Land and building to be valued at £ 1,500,000

(ii) Plant and Machinery to be valued at £ 2,490,000

(iii) A provision of 10% of the book value to be made for obsolete inventory

(iv) A provision for bad debts to be made at 10% of the accounts receivable

(v) A discount of 6% to be received from accounts payable

(vi) The purchase consideration was £ 1,650,000; to be satisfied by issue of 12,000 ordinary shares of £100 each at par fully paid, valued at £ 1,500,000. The balance is discharged by issue of 12% debentures of £ 1,000 each.

Required

Show the closing entries in the books of the partnership **(15marks)**