

UGANDA MARTYRS UNIVERSITY, MBALE CAMPUS

UNIVERSITY EXAMINATIONS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

END OF MODULE FINAL ASSESSMENT

Intermediate Accounting II

DATE: Saturday 3rd February, 2018

TIME ALLOWED: 3 hours: 9.00am – 12.00 noon

Instructions to Candidates:

Read the following before answering the questions

1. Carefully read through ALL the questions before attempting
 2. **ANSWER FOUR (4) Questions** (All questions carry equal marks)
 3. No **names** should be written anywhere on the examination book.
 4. Ensure that your **Reg. number** is indicated on all pages of the examination answer booklet.
 5. Ensure your work is **clear** and **readable**. Untidy work shall be penalized
 6. Any type of examination Malpractice will lead to automatic disqualification
 7. Do not write anything on the questions paper.
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QUESTION 1

- (i) Briefly discuss the sources of information for financial statement's analysis. **[10 marks]**
- (ii) "Financial statements are prepared not as an end in themselves but in order that interested users may use the information contained therein to make accurate, timely and informed decisions." Briefly discuss the importance of financial statements analysis. **[9 marks]**
- (iii) Explain the principal limitations of the use of ratios in financial statements analysis. **[6 marks]**

QUESTION 2

Paper Products has a head office in London and a Branch in Kabalagala. The following information has been extracted from the head office books of account as at 31st December 2003.

Information relating to the branch

<i>Balances</i>	<i>Opening</i>	<i>Closing</i>
	000	000
Branch bank account (positive balance)	3	12
Branch debtors	66	81
Branch stock (at transfer price)	75	90
<i>Transactions during the year</i>		000
Bad debts written off		15
Branch general expenses (paid from branch bank account)		42
Cash received from credit customers and banked		390
Cash sales banked		120
Cash transferred from branch to head office bank account		459
Credit sales		437
Discounts allowed to credit customers		9
Goods returned by credit customers		8
Goods returned from branch (at transfer price from the head office)		30
Goods sent to branch (at transfer price from head office)		600

Information relating to the head office

Balances	Opening 000	Closing 000
Stock	180	220

Transactions during the year

	000
Bad debts written off	24
Cash sales	1,500
Credit sales	2,000
Discounts allowed to credit customers	29
General expenses	410
Goods returned by credit customers	40
Purchases	2,780

Additional information

- (i) Most of the accounting records relating to the branch are kept by the head office in its own books of account.
- (ii) The head office makes all purchases, and goods are invoiced to the branch at selling price, that is, at cost price plus 50 per cent.

Required

1. Write up the following ledger accounts for the year to 31 December 2003, being careful to bring down any balances as at that date
 - (i) Branch stock account
 - (ii) Goods sent to branch account
 - (iii) Branch stock adjustment account
 - (iv) Branch debtors account
 - (v) Branch bank account
2. Prepare Paper Products Statement of Comprehensive Income for the year.

QUESTION 3

- (a) What is a hire purchase agreement? **[5 marks]**
- (b) Briefly explain the basic requirements (contents) of a hire purchase agreement. **[10 marks]**
- (c) The purchase of fixed assets can cause a serious cash flow problem for a business. Identify and explain the benefits of hire purchase method of fixed asset acquisition to a business. **[10 marks]**

QUESTION 4

During the year ended 31 December 2007 Mugi Ltd made a new offer of shares to the public as follows: 100,000 ordinary shares of Shs. 1,000 each at Shs. 1,500 per share.

The arrangement for payment was as follows:

- (a) 1st March 2007 Shs. 650 per share payable on application
- (b) Allotment to be made on 1st May 2017 and further Shs. 550 per share (including the premium) to be paid.
- (c) The final call for the balance to be made on 1st August 2017.
Applications for 200,000 shares were received and it was decided to deal with them as follows:
 - i. Reject applications for 75,000 shares and the money refunded.
 - ii. Applicants for 25,000 shares be accepted in full.
 - iii. Allot the remaining shares on the basis of 3 shares for every 4 applied for.
 - iv. Not to refund excess application money on the allotted shares but apply that money on allotment.

On first and final call a shareholder who had been allotted 5,000 shares failed to pay the amount due and these shares were duly declared forfeited. They were later re-issued to a new shareholder on 30th September 2017 at a price of Shs. 800 per share as fully paid in cash.

Required

- 1. Record the above transactions in the company's ledger accounts. **[20 marks]**
- 2. Extract a balance sheet for the company. **[5 marks]**

QUESTION 5

- (a) Users of Financial Statements need **THREE** important pieces of information (amongst others) on business entities. This information can be assessed by the preparation of Statements of Cash Flows. State and explain these three important pieces of information. **[6 marks]**

(b) Kimono Ltd provides the following comparative balance sheets as at the end of two successive years.

	2016	2017
	Ushs. '000'	Ushs. '000'
Assets		
Land and buildings	11,000	14,750
Machinery	7,500	11,500
Development expenditure	800	1,200
Stock	6,950	11,200
Short term investments	75	200
Trade debtors	4,525	10,050
Bank balance	1,025	
Total assets	31,875	48,900
Owners equity & Liabilities		
Bank		575
Proposed dividends	750	1,125
Corporation tax	625	6,000
Creditors	6,000	2,700
10% debentures	4,000	
Paid up share capital	8,750	14,000
Share premium		1,000
Revaluation (premises)		1,500
Retained profits	11,750	22,000
Total owners equity and liabilities	31,875	48,900

Profit and loss account for the year ended 31 December 2017

	Ushs. '000'	Ushs. '000'
Operating income		120,000
Less: Operating expenses	92,500	
Depreciation (machinery)	2,000	
Development expenditure	<u>1,750</u>	<u>96,250</u>
Profit before tax		23,750
Tax		<u>5,875</u>
Profits after tax		17,875
Dividends		
Interim (paid)	500	
Proposed (final)	<u>1,125</u>	<u>1,625</u>
Retained profits for the year		16,250

Additional information

(a) During the year ended 31st December 2017 machinery with book value of Ushs. 1,750,000 was sold for Ushs. 2,300,000. Its original cost was Ushs. 5,250,000.

(b) In July 2017 the company issued 20,000 bonus shares of Ushs. 250 each at Ushs. 300 per share. The other shares were issued for cash

Required

Prepare a cash flow statement for the year ended 31st December 2017 using the indirect method. **[19 marks]**

QUESTION 6

The trial balance, below is from the books of Pantaleo Plc an established retailer as at 31st December 2017

Trial balance
31st December 2017

	Shs.	Shs.
Pantaleo - Capital		217,492
Pantaleo - Drawings	50,000	
Trade debtors and creditors	201,000	104,010
Bills receivable and payable	18,000	26,140
Loan on mortgage of premises		95,000
Interest on loan	3,000	
Premises	170,000	
Plant and machinery	130,000	
Stock 1 st January 2017	48,390	
Purchases and sales	514,580	1,162,460
Returns inwards and outwards	78,210	13,460
Carriage inward	9,290	
Carriage outward	20,040	
Wages	154,850	
Salaries	60,970	
Rent and rates	20,000	
Gas water and electricity	7,200	
Insurance	1,710	
Advertising	32,640	
Bad debts written off	5,250	
Provision for bad debts 1 st January 2017		7,100
General expenses	34,882	
Discounts allowed and received	5,600	11,000
Shares in Stanbic bank	50,000	
Dividend received		5,000
Cash in hand	500	
Cash in bank	25,550	
Total	1,641,662	1,641,662

Additional information

(a) Stock-in-trade is valued at Shs. 51,000

- (b) The market value of Stanbic shares is Shs. 55,000
- (c) The premises are to be depreciated at 5% and plant and machinery at 10%
- (d) The provision for bad debts is to be maintained at 5% on trade debtors.
- (e) Loan interest is to be charged at 12% per annum for the year having regard to the fact that Shs. 5,000 was repaid in the middle of the year.
- (f) Ushs. Is outstanding in respect to rent and rates
- (g) Insurance is prepaid Shs. 500
- (h) 75% of the rent and rates is to be charged to trading
- (i) 50% of the gas, water and electricity is to be charged to trading
- (j) 50% of advertising is to be deferred to next year
- (k) Goods sold on credit for shs.9,000 in the afternoon of 31/12/2017 were not recorded
- (l) The bank statement shows balance at bank at Shs. 25,000 on 31st December 2017. the difference is due to the ledger fee for December which was not recorded in the cash book
- (m) The manager is entitled to a commission of 10% on net trading profit after charging his commission
- (n) Income tax provision Shs. 62,500 is to be made.

Required:

Prepare the following Financial Statements for Pantaleo Plc. in accordance with I.A.S 1 "Presentation of Financial Statements":

- (i) A Statement of Comprehensive Income for the Year ending 31 December 2017 **[15 marks]**
- (ii) A Statement of Financial Position as at 31 December 2017 **[10 marks]**