

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

BAM II AUG INTAKE

SEMESTER TWO 2021/2022

COURSE UNIT: INTERMEDIATE ACCOUNTING II

CODE: ACC2206

DATE: 19TH JULY, 2022

TIME: 9:30 PM - 12:30 PM

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*Instructions:*

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- Read the instructions on the cover of the answer book and the question paper.
- Attempt FOUR questions
- The number/ figure in brackets after each question, or part of a question, shows the marks allotted and candidates should apportion the time spent on each part accordingly.
- Silent, non-programmable calculators may be used in this examination. Whether you use it or not, you must show your calculations.
- Don't write anything on the question paper.

### Question One

Denise, Nicholas and Caroline were partners in UMU Partnership sharing profit and losses in the ratio of 2:2:1 respectively. The partnership statement of financial position as at 31<sup>st</sup> Dec 2020 was as follows

<b>Non current assets</b>	Shs (000)	Shs (000)
Land and building	180,000	
Plant and Machinery	120,000	
Motor vehicles	30,000	330,000
<b>Current assets</b>		
Inventory	110,000	
Receivables	140,000	
Bank	90,000	340,000
		670,000
<b>Capital</b>		
A	220,000	
B	180,000	
C	100,000	500,000
<b>Liabilities</b>		
Loan A	70,000	
Account Payable	100,000	170,000
		<b>670,000</b>

On 1<sup>st</sup> Jan 2021 the partners incorporated UMU Traders Ltd and agreed to dispose off the partnership business to the newly incorporated company under the following terms

1) UMU Traders Ltd is to acquired non current assets and inventory at a price of shs 580,000,000. The purchase consideration to be discharge by a payment of shs 100,000,000 in cash and the balance by the issue of ordinary shares of shs 1,000 each at shs 1250 to the partners

2) The partnership business is to settle accounts owing to suppliers, pay Loan A and also to collect amounts owed by accounts receivable.

3) The purchased consideration payments and allotments of shares to the partners was completed on 2<sup>nd</sup> Jan 2021.

4) The account payable was settled with a cash discount of shs 1,900,000.

5) Accounts receivable was paid amounts owing by Jan 2<sup>nd</sup> 2021 except for bad debts amounting to shs 8,000,000 and discounts allowed to customers amounted to shs 4,000,000 was granted

**Required:** Prepare Ledger accounts to close the partnership books and ledgers accounts in the new company books immediately on completion of the above transactions (25 marks)

### Question Two

NAKA Company Limited issued 20,000 ordinary shares of Shs 1,000 each at a premium of Shs 200 per share payable as follows: Shs 300 on application, Shs 500 on allotment (including premium) and the balance in two calls of equal amount. Applications were received for 30,000 ordinary shares and pro-rata allotment was made for all the applicants. The excess application money was adjusted towards allotment. Mr. Liar who was allotted 400 ordinary shares failed to pay the first call and the final call. Consequently, his shares were forfeited after the final call

#### Required

- The journal entries (9 marks)
- The ledger accounts (13marks)
- The statement of financial position (extract). (3marks)

### Question Three

K Company Limited produces house gates. Comparative statements of profit or loss and statements of financial position for the years ended 31<sup>st</sup> December 2018 and 2017 are given below:

#### K Company Ltd

##### Statement of Financial Position as at 31<sup>st</sup> December

	2018		2017	
	Shs 000	Shs 000	Shs 000	Shs 000
<b>Non current assets:</b>				
Land		69,000		66,000
Machinery and equipment	172,000		156,000	
Less accumulated depreciation on Machinery and Equipment	113,000		102,000	
		59,000		54,000
		128,000		120,000
<b>Total non current assets</b>				
<b>Current assets:</b>				
Cash	17,000		18,000	

Account receivable	92,000		77,000	
Inventory	103,000		92,000	
		212,000		187,000
<b>Total assets</b>		<b>340,000</b>		<b>307,000</b>
Current liability:				
Account payable	66,000		78,000	
Dividends payable	2,000		0	
Income tax payable	3,000		5,000	
		71,000		83,000
Long term debt		75,000		42,000
Total liabilities		146,000		125,000
Shareholders Equities:				
Equity share capital	26,000		26,000	
Retained Earnings	168,000		156,000	
		194,000		182,000
<b>Total liabilities and Equities</b>		<b>340,000</b>		<b>307,000</b>

K Company  
Statements of Profit or Loss for the years ended 31<sup>st</sup> December

	<b>2018</b>
	<b>Shs. '000'</b>
Net Sales Revenue	600,000
Cost of Goods Sold	<u>500,000</u>
Gross profit	100,000
Operating Expenses	<u>66,000</u>
<b>Income before interest and tax</b>	<b>34,000</b>
Interest Expenses	<u>4,000</u>
Income before Tax	30,000
Income Tax	<u>12,000</u>
<b>PROFIT</b>	<b><u>18,000</u></b>

The following additional information is also available:

- i) Dividends declared during 2018 were Shs.6,000,000.
- ii) Equipment worth Shs.16,000,000 was acquired cash.
- iii) Land was acquired for Shs.3,000,000 cash.
- iv) Depreciation of Shs.11,000,000 was included in operating expenses for 2018.

Required:

- a) Prepared a Statement of Cash Flows of K Company Ltd. And briefly comment on the Statement you have prepared. (20 marks)

- b) Discuss any five advantages associated with cash flow statement to key stakeholders (5marks)

#### Question Four

The following are extracts from the financial statements of Kasuku Ltd for the year ended 31 December 2019

	Shs.000	Shs.000
Turnover		160,000
Gross profit		40,000
Operating expenses		8,000
Non-current assets		108,000
Current assets:		
Inventory	10,000	
Accounts receivable	8,000	
Bank	2,000	20,000
<b>Total asset</b>		<b>128,000</b>
Equity and liabilities		
Capital		103,000
5% Debentures		15,000
Current liabilities		10,000
<b>Total equity and liabilities</b>		<b>128,000</b>

- (a) You are required to calculate the following ratios (14 marks)

- Gross profit margin,
- Net profit margin
- Inventory turnover days using 360 days in year
- Total asset turnover
- Debtors' collection period in days (360 days in a year)
- Current ratio
- The quick (acid test ratio)

- (b) Kaboza Ltd is a competitor in the similar business as Kasuku Ltd for which the following ratios have been computed for the year to 31 December 2019

Ratio	Ratio value
Gross profit margin	25%
Net profit margin	10%
Inventory turnover	40 days
Total asset turnover	1.4 times
Debtors collection period	20 days
Current ratio	1
Acid test ratio	0.5

### Required

- i. Compare the performance of Kasuku Ltd in a) above with those of Kaboza Ltd (7 marks)
- ii. Explain any four (4) limitations of ratios analysis) (4 marks)

### Question Five

(a) Using examples, discuss the followings

1. Returnable containers 3marks
2. Non-returnable containers 3marks
3. Depreciated value 1mark
4. Charge-out price 1mark
5. Credit back 1mark
6. Hire profit 1mark

(b) Using knowledge of containers' account, illustrate the likely accounting entries to made in the followings account:

- a) Containers stock account (5marks)
- b) Containers suspense account (5 marks)
- c) Container Trade Account (5marks)

**NB: When separate charge is made on returnable containers**

### Question Six

(a) Using knowledge of Bill of exchange, write short note on the followings:

1. Bill of exchange 3marks
2. Drawer 1mark
3. Drawee 1mark
4. Payee 1mark
5. Acceptor: 1mark

(b)

- a) AB Ltd. sold goods valued at sh. 500,000 to XY Ltd. on 1<sup>st</sup> May 2019 and drew upon them a three month's bill of exchange for that month. XY Ltd. accepted the bill. On July 1<sup>st</sup> 2019 AB Ltd discounted with the Bank at 10%. **Required:** Show the relevant entries in the ledgers of AB Ltd (6 marks)

- b) The following trial balance has been extracted from the books of Obama Ltd as at 31/12/2021

	Shs'000	Shs'000
Office rent	98,000	
Audit fee	22,000	
Salaries	150,000	
Irrecoverable debts	27,000	
General administration exp	125,000	
Distribution centre storage costs	110,000	
General distribution costs	23,000	
Advertising	40,000	

Share capital (all ordinary shares of Ugx. 9 @ )		270,000
Share premium		80,000
Revaluation reserve		20,000
Cash at bank	3,000	
Receivables	233,000	
Non-current assets investments	280,000	
Interest paid	25,000	
Interest received		1,000
Land and buildings at cost (Land 100,000)	200,000	
Land and buildings: Accumulated depreciation		30,000
Plant and Machinery at cost	400,000	
Plant and Machinery: Accumulated depreciation		170,000
Retained earnings account		235,000
Purchases	1,210,000	
Sales		2,165,000
Inventory	140,000	
Trade payable		15,000
Bank loan		<u>100,000</u>
	<u>3,086,000</u>	<u>3,086,000</u>

**Additional information:**

1. Inventory Shs. 85,000.
2. Depreciation for the year is to be charged against cost of sales as follows:
  - Buildings 5% on cost (straight line).
  - Plant and machinery 30% on carrying value (CV) reducing balance.
3. Income tax for the year of Shs. 165,000
4. A dividend of Shs. 1 per share was paid for the year
5. The loan is repayable in 5 years.
6. Non-current asset investments are to be revalued up by Shs. 100,000.
7. Salaries are to be apportioned equally between cost of sales, administration expenses and distribution costs.

*Required: Prepare the statement of comprehensive income and statement of changes in equity (12 marks)*