

UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

INTERMEDIATE ACCOUNTING II

BAM 11

SPECIAL/SUPPLEMENTARY EXAMINATION

DATE: 10th/08/2015

Time allowed: 3 hours:

Instructions to Candidates:

Read the following before answering the examination questions.

- 1) Do not write anything on this question paper.
- 2) Write neatly and clearly, showing all workings.
- 3) Answer any four questions, all questions carry equal marks.

QUESTION ONE

- (a) Explain your understanding of debentures. (5 marks)
(b) Differentiate between a share holder and a debenture holder (20 marks)

QUESTION TWO

In order to finance an expansion programme, Savior Company Ltd issued 1,000,000 shares of shs 100 each at Shs.140 per share payable as follows

On application Shs 25
On allotment Shs 65 (including) premium
First call Shs 30
Second and final call Shs 20

Applications were received for 1,300,000 shares. Of these 100,000 shares were rejected and the money repaid to the applicants. The remainder were allotted prorata on a 5 for 6 basis and the surplus application money was carried forward as part payment for the amount due on allotment. The calls were made and the appropriate sums received except a holder of 20,000 shares failed to pay either calls

After the required formalities had been carried out, the shares were declared forfeited and later reissued to another applicant for Shs. 70 per share fully paid.

Required

Open relevant accounts in the ledger to record the above transactions (25 marks)

QUESTION THREE

The following trial balance was obtained from the books of UGO Plc as at 31/12/2012

	DR (Shs'000)	CR (Shs'000)
Plant and machinery	62,500	
Good will	47,300	
Provision for depreciation: plant and machinery		24,500
Ordinary share capital: Shs 1,000 per share		150,000
Share premium		10,000
General reserve		8,000
Retained profits		27,300
Inventory	33,285	
Sales		481,370
Purchases	250,220	
Returns outwards		14,770
Returns inwards	13,810	
Carriage inwards	570	
Carriage outwards	4,260	
Warehouse wages	50,380	

Salesmen's salaries	32,145	
Administrative wages and salaries	29,900	
Hire of motor vehicle	9,600	
General distribution expenses	2,840	
Directors remuneration	14,800	
Rent receivable	3,600	
Accounts receivable	164,150	
Bank	30,870	
Accounts payable		34,290
	750,230	750,230

Additional information

- On 31/12/2012, Inventory was valued at Shs.45,890,000
- Depreciate machinery at 20% on cost
- Accrued Audit fees was Shs.600,000
- Provision for corporation tax was Shs. 29,100,000
- The directors proposed a dividend of Shs.360 per share.

Required

Prepare the following financial statements

- Statement of comprehensive income for the year ended 31/12/2012 (15 marks)
- Statement of financial position as at 31/12/2012 (10 marks)

QUESTION FOUR

- Comment on the significance of each of the following ratios to an organization;
 - Gross profit margin (2 marks)
 - Return on capital employed (ROCE) (2 marks)
 - Earnings per share (2 marks)
 - Total asset turnover (2 marks)
 - Current ratio (2 marks)
- The summarized financial accounts of Ndenge Ltd for the year 2013 and 2014 are as follows;

	2014 (Shs)	2013 (Shs)
Sales	300,000	350,000
Less: Cost of sales	(130,000)	(160,000)
Gross profit	170,000	190,000
Less: Operating expenses		
Debtenture interest	(65,000)	(75,000)
Net profit	<u>105,000</u>	<u>115,000</u>

Balance Sheet as at 31 st December		
	2014	2013

	Shs	Shs
Non - Current Assets (NBV)	150,000	190,000
<u>Current Assets</u>		
Stock	40,000	50,000
Debtors	45,000	47,000
Bank	-	<u>5,000</u>
	85,000	102,000
<u>Less: Current Liabilities</u>		
Creditors	25,000	22,000
Bank overdraft	<u>20,000</u>	=
	45,000	22,000
Working Capital	<u>40,000</u>	<u>80,000</u>
	<u>190,000</u>	<u>270,000</u>
Financed by:		
Capital: Ordinary shares	150,000	150,000
Profit & loss account	<u>40,000</u>	<u>50,000</u>
	190,000	200,000
10% Debentures	=	<u>70,000</u>
	<u>190,000</u>	<u>270,000</u>

Stock at 1st January 2015 was shs 70,000

Required:

Calculate the following ratios for both years;

- Gross profit margin (3 marks)
- Stock turnover (3 marks)
- Current ratio (3 marks)
- Debtors turnover (in days) (3 marks)
- Return on capital employed (3 marks)

QUESTION FIVE

The following is the balance sheet of Fred and Mwalimu, equal partners in a wholesale business on 4th July 2014.

Balance Sheet as at 4th July 2014

	Shs	Shs	Shs
<u>Non- Current Assets</u>			
Investments			370,000
Motor Vehicles			320,000
Furniture and fittings			<u>250,000</u>
			940,000
<u>Current Assets</u>			
Stock		690,000	

Debtors		1,140,000	
Bank		<u>390,000</u>	
		2,220,000	
Less: <u>Current Liabilities</u>			
Creditors	640,000		
Accruals	<u>20,000</u>	<u>660,000</u>	<u>1,560,000</u>
			<u>2,500,000</u>

Financed by:

Capital			
- Fred		1,500,000	
- Mwalimu		<u>1,000,000</u>	<u>2,500,000</u>

On this date, their business is taken over by Bam 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.

Required:

- a. Compute the purchase price
- b. Journal entries in the company's books
- c. Relevant ledger accounts
 - Ordinary Share capital
 - Share premium
 - Formation expenses
 - Bank account
- d. Company's opening balance sheet. (25 marks)

QUESTION SIX

KAKU Company limited was formed in 2010 with head office in Entebbe. The company opened a branch in Koboko in 2013 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 KAKU Company limited as on 31/10/2014 for the head office and Koboko branch.

	Entebbe		Koboko	
	Debit (Shs'millions)	Credit (Shs'millions)	Debit (Shs'millions)	Credit (Shs'millions)
Property, plant and equipment	766		76	
Share capital		600		
Administrative costs	270		18	
Branch current account	92			
Head office current account				48
Cash at bank	38		4	
Accounts payable		45		10
Accounts receivable	30		40	
Goods sent to branch		332		
Provision for unrealized profit		3		
Retained profits		56		
Distribution cost	60		24	
Purchases	450		308	
Sales		700		430
Stock at cost	30		18	
	1,736	1,736	488	488

Additional information

- 1) Goods purchase by head office and sold to the branch are transferred at cost plus 20%
- 2) Stock on 31/12/2011 was valued as follows
 - Head office at cost \$40 million
 - Branch at selling price \$48 million
 - Goods in transit to branch at cost \$ 24 million
- 3) On 31/12/2011 the branch had transferred \$ 20 million to the head office bank account but on that date no record had been made in the head offices' books.

You are required to prepare:

- i. Statement of comprehensive income for the head office and the branch for the year ended 31/12/2011(15 marks)
- ii. A combined statement of financial position for the head office and the branch as at 31/12/2011 (10 marks)