UGANDA MARTYRS UNIVERSITY, NKOZI/LUBAGA CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

BAM II, BSC ACC& FIN II SEMESTER TWO 2017/18

COURSE UNIT: INTERMEDIATE ACCOUNTING II

DATE: Tuesday, 8th May 2018

Time allowed: 9:30am- 12:30pm

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

KBC limited with authorized share capital of shs 20 billion constituted by shares of shs 1000@ decided to issues all those shares at a premium of shs 1,000/= payable as follows:

On application	shs	200
On allotment	shs	400 (including premium)
On first call	shs	100
On second and final call	shs	400

25,000 applications were received. 3,000 were rejected and money thereof refunded. The shares were distributed to the rest of the applicants on a pro-rata basis. Shareholders holding 2000 shares failed their allotment money and the shares were consequently forfeited 1000 if the forfeited shares were later reissued as fully paid for a consideration of shs 800 per share.

Required: Prepare the following ledger accounts

a) Share application and allotment accounts
b) Bank account
c) Share capital account
d) Share premium account
e) Forfeited shares account
f) First call account
g) Second call account
h) An extract of the statement of financial position

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 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
- Motor vehicles (1.1.2016)		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 dividend 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. Accrue 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

The following accounts are of two companies that each sell sports goods:

Trading and profit and loss in Ugshs

	J Company (shs)		**K 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
		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**

Balance sheets

	J Company (shs)		K Company (shs)	
Fixed Assets	£	£	£	£
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:

(a) Calculate the following ratios to one decimal place:

(i) Current ratio **(2 marks)**

(ii) Acid test ratio **(2 marks)**

(iii) Stock turn **(2 marks)**

(iv) Debtors: sales ratio **(2 marks)**

(v) creditors: purchases ratio **(2 marks)**

(vi) Gross profit as a percentage of sales **(2 marks)**

(vii) Net profit as a percentage of sales **(2 marks)**

(viii) Rate of return on shareholders' funds. **(2 marks)**

(b) Compare the results of the two companies, giving possible reasons for the different results. **(9 marks)**

QUESTION FOUR

Kagu, Kaga and Kabi are partners in the Congo business sharing profits and losses in the ratio 2:2:1 respectively. The balance sheet as at 31 December 2013 reflected the following position.

	Shs '000'
Assets	
Freehold premises	18,000
Equipment & machinery	12,000
Motor vehicle	3,000
Stock	11,000
Debtors	14,000
Bank	9,000
Total assets	67,000
Financed by;	
Capital accounts	
Kagu	22,000

Kaga	18,000
Kabi	10,000
Loan to the partnership by Kagu	7,000
Creditors	10,000
Total equity and liabilities	67,000

The partnership agreed to dispose of the business to MONUC Ltd which was incorporated on 1 January 2014 for the purpose of taking over this partnership. The partnership was to be taken over under the following terms.

(a) MONUC Ltd was to acquire goodwill on will fixed assets and stock for the purchase consideration of shs 58,000,000. The consideration would include payment of shs 10,000,000 cash issue of shs 12,000,000 10% preference shares of shs 1,000 at per and the balance by issue of shs 1,000 ordinary shares at shs 1,250.
(b) The partnership will settle amounts owing to creditors and the partners.
(c) MONUC Ltd will conflicts debs on behalf of the partnership.

The purchase consideration payments and allotment of shares were ma de on 1 January 20*4 and the partnership creditors were paid off after taking off cash discounts of shs 190,000. MONUC Ltd collected and paid all partnership debts except for bad debts amounting to shs 800,000. The discounts allowed to debtors amounted to shs 400,000.

Required:

Show the all the relevant ledger accounts to close off he partnership books and realization account and the opening statement of financial position for the new company**. (25 marks)**

QUESTION FIVE

A. Briefly explain the 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)

<u>QUESTION SIX</u>

(a) Explain your understanding of debentures. **(5 marks)**

(b) Differentiate between a share holder and a debenture holder **(20 marks)**

The following can be used

Gross profit margin = Gross profit/Sales *100%

Stock turnover = Cost of sales/Average stock

Return on capital employed = Profit before interest & taxation/Capital employed *100%

Debtors turnover = Debtors/Credit sales *365

Current ratio = Current Assets/Current Liabilities

Total Asset turnover = Sales/Total Assets