

UGANDA MARTYRS UNIVERSITY: NKOZI MAIN CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

COURSECODE: ACC 2206.INTERMEDIATE ACCOUNTING II

DATE: TUESDAY 23/5/2023

Time allowed: Time allowed: 3 hours

9:30 am-12.30 pm

INSTRUCTIONS TO CANDIDATES:

Read the following before answering the examination questions

- 1) Section **A** has one compulsory question carrying 25marks
- 2) Section **B** has five numbers and only three are to be attempted. Each question carries 25marks
- 3) Writ your answer to each question on a fresh page in your answer booklet

Any malpractices will **LEAD** to the **CANCELLATION** of the RESULTS

SECTION A

This section has one compulsory question to be attempted

Question 1

The following trial balance was extracted from the books of an Imaginary Company as at 30th June 2020

	Shs. 000'	Shs'000
10% preference share capital		35,000
Ordinary share capital		125,000
10% debentures repayable 2024		20,000
Share premium		21,000
Equipment at cost	122,500	
Motor vehicles at cost	99,750	
Provision for depreciation: Equipment		29,400
Provision for depreciation: Motors vehicles		36,225
Inventory 1st January 2020	136,132	
Sales		418,250
Purchases	232,225	
Sales return	4,025	
General expenses	1,240	
Salaries and wages	46,260	
Directors remuneration	18,750	
Rent, rates and insurance	18,095	
Motor expenses	4,361	
Debenture interest	1,000	
Bank	12,751	
Cash	630	
Trade receivable and payable	94,115	93,085
Profit and loss account 1/1/2020		13,874
	791,834	791,834

Additional information

1. The inventory at 31.12.2020 was at Shs. 122,000
2. The rent accrued Shs.2, 000
3. Accrued debenture interest Shs. 1,000
4. Depreciate the equipment at 10% on cost and motor vehicles at 20% at cost
5. Transfer to general reserve Shs. 5,000
6. It is proposed to pay the 8% preference dividend and a 10% dividend on the ordinary shares

7. Authorized share capital is Shs. 35,000 in preference shares and shs. 200,000 in Shs.1000 shares

Required:

- b) Prepare the Income statement for the year ended and statement of financial position as at that date **(20 marks)**
- b.) Briefly explain the concept of capital reserves and Revenue reserves in an organization **(6marks)**
- (Total 25 marks)**

SECTION B

Attempt any three questions from this section

Question 2

The following information has been extracted from the recently published accounts of SPG Company Ltd

Income statement for the year ended 2022

	2022	2021
	Shs.	Shs
Revenue	11,200,000	9,750,000
Cost of sales	<u>8,460,000</u>	<u>6,825,000</u>
Gross profit	2,740,000	2,925,000
Note interest	<u>80,000</u>	<u>60,000</u>
	2,820,000	2,985,000
Operational expenses		
Depreciation	360,000	280,000
Administration costs	12,000	10,000
Finance costs	<u>15,000</u>	<u>9,000</u>
	387,000	299,000
Profit before tax	2,433,000	2,686,000
Income tax	<u>729,900</u>	<u>805,800</u>
Profit/(loss) after tax	<u>1,703,100</u>	<u>1,880,200</u>

Statement of Financial position as at 30th December 2022

	2022	2021
	Shs.	Shs
Non-current Asset	1,850,000	1,430,000
Current Assets		
Inventory	640,000	490,000
Accounts receivable	1,230,000	1,080,000

Bank	<u>80,000</u>	<u>120,000</u>
Current assets	1,950,000	1,690,000
Total Assets	<u>3,800,000</u>	<u>3,120,000</u>

Equity and liabilities

Equity		
Ordinary share capital	800,000	800,000
Retained earnings	<u>1,310,000</u>	<u>930,000</u>
	2,110,000	1,730,000

Liabilities

Non -current Liabilities

10% loan stock	800,000	600,000
Accounts payables	750,000	690,000
Taxation	30,000	20,000
Bank overdraft	<u>110,000</u>	<u>80,000</u>
	890,000	790,000
Total equity and liabilities	<u>3,800,000</u>	<u>3,120,000</u>

Required

Calculate comparable ratios (to two decimal places where appropriate) for the year ended 2022. All calculations must be clearly shown with implication of each ratio on the performance of SPG:

- Quick ratio,
- Rate of Inventory turnover,
- Creditors turnover,
- Net profit margin,
- Debt to equity ratio and;
- Interest cover

(18 marks)

b) Explain the concept of financial analysis and its limitations in measuring the performance of SPG Ltd Company

(7 marks)

(Total 25 marks)

Question 3

- a) BALOLE group of companies has the following summarized balances on statement of financial position as at 30th December 2022

	<u>2021</u> Shs.'000'	<u>2022</u> Shs.'000'
Non- current Assets		
Plant and machinery at cost	750	975
Less Acc. depreciation	300	450
	450	525
Investment at cost	<u>300</u>	<u>75</u>
Total non- current assets	750	600
Current Assets		
Inventory	600	1,050
Trade receivables	2,025	2,325
Cash and bank balances	<u>150</u>	<u>0</u>
Total current assets	2,775	3,375
Total assets	<u>3,525</u>	<u>3,975</u>
Equity and liabilities		
Equity		
Called up share capital (100 per share)	750	1,125
Share premium	225	300
Profit and loss Account	<u>1,005</u>	<u>795</u>
Total equity	1,980	2,220
Liabilities		
Bank		90
Trade payables	975	1,185
Taxation	345	285
Proposed dividends	<u>225</u>	<u>195</u>
Total Liabilities	1,545	1,755
Total equity and liabilities	<u>3,525</u>	<u>3,975</u>

Additional information

- a) During the year to 31st December 2022, some non-current assets originally costing Shs 37,000 had been sold for Shs. 30,000 in cash. The accumulated depreciation on non- current assets at 31st December 2022 amounted to Shs. 15,000. Similarly, some of the investments originally costing Shs. 225,000 had been sold for cash at their book value

- b) The company's profits before interest and tax amounted to Shs. 270,000
 c) No interim dividend was paid during the year to 31st December 2022
 d) During the year to 31st December 2022, the company made a 1 for 2 rights issue of Shs. 100 ordinary shares at Shs. 120 per share
(18 marks)

Required

Prepare Balole Group of Company's Ltd cash flow statement for the year ended to 31st December 2022

- b) IAS 7: statement of cash flows provides information to users of financial statements about cash needs of the entity

Required

Explain the significance of the Cash Flow Statement as per IAS 7 **(7marks)**

(Total 25 marks)

Question 4

- a) Vodacom Group Limited in Mbarara operates a branch in Kasese. The following information is available for Kasese branch for year ended 31st June 2022

	Shs.'000
Opening balances 1/1/2022	
Inventory at branch	210,000
Discount allowed to customers	24,000
Accounts receivable	80,000
Returns from branch customers (selling Price)	60,000
Closing balance 31 st December 2022	
Branch inventory (cost)	140,000
Transactions for the year	
Goods sent to branch by the head office	1,300,000
Goods returned by branch to the Head office	30,000
Cash sales	500,000
Credit sales	1,400,000
Goods stolen at branch	10,000
Bad debts written off	15,000
Cash received from branch customers	1,260,000
Cash stolen at branch	7,000
Branch expense paid	
salaries	90,000
Rent and rates	60,000
General expenses	36,000
	5,122,000

Required:

Prepare the following ledger account in the head office books for Kasese branch for the year ended 31 December 2022

- a) Branch inventory Account (4marks)
- b) Goods sent to branch Account (3marks)
- c) Branch Accounts receivable Account (4marks)
- d) Branch Cash Account (4marks)
- e) Branch expenses Account (4marks)
- f) Branch Profit and Loss A/C (2marks)

- b) Branch accounts arise when large scale organization operates various outlets in various parts of the country or internationally. As a finance officer of Vodacom Group Limited Ltd. Briefly explain the objectives of branch accounts to the management of Vodacom Group Limited Ltd (4marks)

Total 25 marks)

Question 5

- a) Walmart is of the company to be formed by the group of achievers and they are wondering which type of company to start. In their meeting they resolved to ran an advert. On 12th May 2023 the advertisement was run in the new vision calling for consultancy services to provide an advice the board of directors of Walmart on the best type of business to start. On the evaluation of the bids you merged the best and the contract was a warded to you. The terms of reference are to make a presentation on the three major forms of business on organizations and advise on the best option (13marks)
- b) Explain the concept of Vendor and Purchaser under business purchase with relevant examples (6 marks)
- c) Briefly explain why should a partnership opt to convert into a limited liability company (6 marks)

(Total 25 marks)

Question 6

- a) Briefly explain the concept of forfeiture of Shares and 3 circumstance under which shares can be forfeited by and entity (9 marks)
- b) Naspers Limited issued 500 shares of shs. 1,000 each at 1,250 per share payable in installment as follows

Shs. 200 on application

Shs. 500 on Allotment (including Premium)

Shs 300 on 1st Call

Shs. 250 on 2nd and final call

Applications were received for 500 ordinary shares duly allotted and all the monies received and the shares were fully called.

Required

Prepare the ledger accounts below to effect the above transaction

- a) Application and allotment
- b) Bank Account
- c) Share capital account
- d) Share premium Account
- e) 1st call Account
- f) 2nd call Account
- g) Statement of financial position extract

(16 marks)
(Total 25marks)

Success!