



**The Co-operative University of Kenya**  
**END OF SEMESTER EXAMINATION DECEMBER-2016**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE  
BUSINESS**

**(BSC FINANCE YR 3 SEM 1/ BCOM YR 3 SEM 1)**

**UNIT CODE: HBA 2301**

**UNIT TITLE: FINANCIAL REPORTING /FINANCIAL REPORTING ANALYSIS**

**DATE: 14<sup>TH</sup> DECEMBER, 2016**

**TIME: 2:00 PM – 4:00 PM**

**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

Meme, Noni and Zenah are partners sharing profits and losses in ratio 3:2:1 respectively, after allowing for interest on fixed capitals at the rate of 5% per annum. The partners prepare their partnership accounts annually to 30th September.

The balance sheet of the partnership as at 31<sup>st</sup> March 2016 was as follows:

	Sh. '000'	Sh.'000'
Assets:		
Noncurrent assets:		
Land and building		4, 000
Machinery and equipment: Cost	3,000	
Accumulated depreciation	<u>(800)</u>	2,200
Motor vehicles: Cost	3,200	
Accumulated depreciation	<u>(1,200)</u>	2,000
Joint life policy		<u>400</u>
		8,600
Current assets:	2,000	
Inventory	550	
Accounts receivable	<u>600</u>	<u>3,150</u>
Cash at bank		<u>11,750</u>
Total assets		
Capital and liabilities:	3,000	
Capital accounts: Meme	2,000	
Noni	<u>2,000</u>	7,000
Zenah	1,300	
Current accounts: Meme	(250)	
Noni	<u>1,450</u>	2,500
Zenah		1,500
Bank loan		750
Accounts payable		<u>11,750</u>
Total capital and liabilities		

On 30<sup>th</sup> September 2016, the partners decided to convert the partnership business into a limited liability company, Menoze Limited. As at 30<sup>th</sup> September 2016, the partners had withdrawn, in their profit or loss sharing ratio, amounts equivalent to half of the profits made

up to 30<sup>th</sup> September 2016. In arriving at the profits for the period ended 30<sup>th</sup> September 2016, depreciation was to be charged on a prorata basis based on cost as follows:

Machinery and equivalent	20% per annum
Motor vehicles	205 per annum

The book values of other assets and liabilities as at 30<sup>th</sup> September 2016 were as shown below:

	Shs. '000'
Land and building	4,200
Joint life policy	400
Inventory	2,400
Accounts receivable	2,000
Cash at bank	600
Accounts payable	1,800

Additional information:

Other terms of the conversion were as follows:

- Land and building were to be revalued at sh.5 million while the value of machinery and equipment was to be reduced by sh.200, 000.
- Noni was to take over the motor vehicle as sh.1, 250, 000
- The joint life policy was to be surrendered for sh.300, 000
- A provision for bad debts of 5% was to be made on the accounts receivable. The inventory was taken over at 90% of its book value
- Meme was to take a third of the book accounts payable. The remaining accounts payable were to be settled by issue of 10% debentures as fully paid and the balance by cash of sh.80, 000, after allowing for a 10% discount.
- The partners were to be issued with 10% debentures of sh.3, 500, 000 by Menoze Limited. The partners would share the debentures in their fixed capital ratio as at that date of conversion. The balance was to be settled by issue of ordinary shares of sh.100 each.

**Required:**

- Partners' current accounts (6 marks)
- Partners' capital accounts (6 marks)
- Realization account (8 marks)
- Business purchase account in the books of Menoze Limited (4 marks)
- An opening statement of financial position as at 1<sup>st</sup> October 2016. (6 marks)

## QUESTION TWO

The following trial balance was extracted from the books of Wananchi Commercial Bank Ltd. as at 31<sup>st</sup> December 2015:

### Wanachi Commercial Bank Ltd Trial balance as at 31<sup>st</sup> December 2015

	Sh."Million"	Sh. "Million"
Loans and advances to customers	16,920	
Money at call and short notice	450	
Government securities	15,830	
Property, plant and equipment	7,520	
Cash and balances with Central Bank of Kenya	840	
Placements with other banks	235	
Interest on loans and advances		4,530
Interest on Government securities		2,580

Foreign exchange income		840
Fees and commission income		185
Deposits with other banks	3,835	
Placement from other banks		180
Interest on placements with other banks		48
Customer's deposits		18,820
Deposits and balances due to other banks		1,620
Interest on placement from other banks	20	
Directors emoluments	68	
Bad and doubtful debts	45	
Depreciation expense	520	
Staff costs	1,360	
Interest on customers deposit	3,550	
Interest on borrowed funds	183	
Ordinary share capital		20,000
Share premium		2,000
Auditors fees	12	
Gain on sale of fixed assets		147
General administrative expenses	130	
Revenue reserves (1 <sup>st</sup> January 2008)		2,750
Legal and professional fees	32	
Other fixed assets	<u>2,150</u>	
	<u>53,700</u>	<u>53,700</u>

**Additional Information:**

- i. As at 31<sup>st</sup> December 2015, accrued interest on customers' deposits was sh.43 million and interest income receivable on loans and advances was sh.56 million.
- ii. First and final dividend of 5% was proposed on ordinary shares
- iii. Current tax was estimated at sh.730 million

**Required:**

- (a) Income statement for the year ended 31<sup>st</sup> December 2015 (10 marks)
- (b) Balance sheet as at 31<sup>st</sup> December 2015 (10 marks)

**QUESTION THREE**

ABC Ltd purchases gas cookers at sh.3, 500 each and sells them through consignees at sh.5, 000 each. Each consignee is entitled to a commission of 5% on sales from consigned goods and full recovery from sales made of any expense incurred on the consigned goods.

The following transactions took place between ABC Ltd and XYZ Ltd a consign during the three month period ended 30<sup>th</sup> June 2016:

- i. ABC Ltd. sent 200 gas cookers to XYZ Ltd and incurred the following costs:
  - Packing – Sh.16, 000
  - Insurance – Sh.30, 000
  - Transport – Sh.42, 000
- ii. On receipt of the cookers, XYZ Ltd incurred sh.12, 000 on unpacking and preparing the cookers for sale
- iii. XYZ Ltd sold 160 cookers and incurred carriage out costs sh.1, 800. Other costs incurred by XYZ Ltd in the period included casual wages Sh.15, 000 advertising expenses sh.5, 000 and storage cost sh.12, 000.
- iv. Some customers returned gas cookers to XYZ Ltd after experiencing gas leakage XYZ Ltd spent sh.10, 000 to repair the cookers
- v. In order to sell the remaining 40 cookers they were all fitted with additional safety gadgets at a total cost of sh.12, 000 which was paid by XYZ Ltd

- vi. XYZ Ltd sold 30 of the cookers fitted with the additional safety gadgets at sh.6, 000 each.
- vii. XYZ Ltd sent ABC Ltd AN ACCOUNT SALES ON 30<sup>TH</sup> June 2006 enclosing a cheque for sh.800, 000

**Required:**

The accounts listed below in the books of ABC Ltd for the three month period ended 30<sup>th</sup> June 2016

- i. Goods sent on consignment account (8 marks)
- ii. XYZ Ltd account (6 marks)
- iii. Profit and loss account for the three month period ended 30<sup>th</sup> June 2016. (6 marks)

**QUESTION FOUR**

Traders Ltd operates two branches one in the head office in Nairobi and the other in Busia. Purchases of stock are made exclusively by the head office branch which does some modification to the stocks before they are sold. Goods are sent to the Busia branch at modified cost plus 10% and all sales by both Busia branch and head branch are made at a gross profit of 25% on the modified cost

The trial balances as at 30<sup>th</sup> June 2016 before taking account of the under mentioned adjustments were

	Nairobi branch		Busia branch	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
Capital		1,550		
Purchases	9,847.5			
Cost of modification	252.5			
Drawings by the owner	275			
Sales		6,400		4,100
Goods sent to / received by branch		4,620	4,400	
Selling and general expense	945		106	
Debtors / creditors	1,548	3,007	568	54
Branch and head office current accounts	1,949			1,307.5
Bank balances	<u>760</u>		<u>387.5</u>	
	<u>15,577</u>	<u>15,577</u>	<u>5,461.5</u>	<u>5,461.5</u>

Additional information:

- i. Goods worth sh.220, 000 sent to the Busia branch in June 2016 were not received or recorded by the branch until July 2016 while a remittance of sh.421, 500 from Busia branch to the head office in June 2016 was not received or recorded at head office until August 2016. Any adjustments in respect of these items are to be made in the head office accounts
- ii. There was a shortage in stocks of a selling value of Sh.100, 000 at the Busia branch. There was no shortage or surplus at the head office
- iii. Unmodified goods costing sh.500, 000 were at the Nairobi branch as at 30<sup>th</sup> June 2016.
- iv. There was no loss or wastage in the process of modification of stocks by the head office. The branch handles only goods received from the head office

**Required:**

Prepare in columnar form for the Nairobi branch Busia branch and the combines business:

- (a) The trading and profit and loss accounts for the year ended 30<sup>th</sup> June 2016 (12 marks)
- (b) The balance sheets as at June 2016 (8 marks)

**QUESTION FIVE**

Nyoike, Kmeei, Lasoi and Mutuku who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4:3:2:1 had a serious disagreement on 15<sup>th</sup> January 2016 which necessitated dissolution of the partnership. For the purpose of dissolution, their accountant extracted a balance sheet as at 1<sup>st</sup> February 2016 as follows:-

	Sh.'000'	Sh.'000'
<b>Noncurrent assets:</b>		
Land and buildings		21,250.0
Plant and machinery		19,802.5
Furniture and fittings		7,500.0
Investments		5,000.0
<b>Current assets:</b>		
Inventory	15,870	
Debtors	9,602.5	
Balance at bank	<u>782.5</u>	<u>26,255</u>
<b>Total assets</b>		<u><b>79,807.5</b></u>
<b>Capital and liabilities</b>		
<b>Capital accounts:</b>		
Nyoike		10,000
Kemei		17,500
Lasoi		10,000
Mutuku		<u>7,500</u>
		45,000
General reserves		17,500
<b>Current liabilities</b>		<u><b>17,307.5</b></u>
<b>Creditors</b>		<u><b>79,807.5</b></u>

Additional information:

- i. The assets which were sold on piecemeal basis realized cash as follows:-

		Sh.'000'
10 <sup>th</sup> February 2016	Inventory (partial)	8,750
16 <sup>th</sup> February 2016	Debtors (Partial)	7,330
27 <sup>th</sup> February 2016	Investment	6,050
3 <sup>rd</sup> March 2016	Furniture and fittings	5,000
20 <sup>th</sup> March 2016	Land and buildings	17,500
	Debtors (partial)	1,250
	Inventory (balance)	6,875
	Plant and machinery	16,400
15 <sup>th</sup> April 2016	Debtors (balance)	877.5

- ii. The partners agreed to set aside sh.1.23 million to meet realization expenses. Any cash available for distribution thereafter was to be shared immediately the creditors were paid in full
- iii. The realization expenses which amounted to sh.1 million were paid on 15<sup>th</sup> April 2016

**Required:**

Using the maximum possible loss method, prepare:

- (a) Statement showing how the proceeds should be shared (10 marks)
- (b) Realization account and capital accounts to close off the books of the partners. (10 marks)