



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION AUGUST -2018**

**EXAMINATION FOR THE CERTIFICATE IN CO-OPERATIVE MANAGEMENT**  
**(YR I SEM II)**

**UNIT CODE: CCM 1109**

**UNIT TITLE: FUNDAMENTALS OF ACCOUNTING II**

**DATE: 24<sup>TH</sup> AUGUST, 2018**

**TIME: 9:00 AM – 11:00 AM**

## **INSTRUCTIONS:**

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

## **QUESTION ONE**

- (a) Macharia has not maintained proper books of accounts as at 31<sup>th</sup> October 2011. However, the following balances were determined.

	Kshs
Cash	210
Bank	4,700
Fixtures	2,800
Inventory	18,200
Accounts receivable	26,600
Accounts payable	12,700
Van	6,800

She also provided the following balances as at 31<sup>st</sup> October 2012.

	Kshs
Cash	90
Bank overdraft	1,810
Inventory	23,900
Accounts payable	9,100
Accrued expenses	320
Fixtures	2,430
Van	5,440
Accounts receivable	29,400
Prepaid expense	460

During the year drawings amounted to Kshs 32,200 and additional capital amounted to Kshs 7,600.

Required:

- Compute the statements of affairs showing the opening and closing capital (10 marks)
  - Compute the profit made by the business during the year. (4 marks)
- (b). Discuss five limitations of financial ratios (10 marks)
- (c). Distinguish between receipts and payments account and an income and expenditure account (6 marks)

## QUESTION TWO

Bibi Maridadi owns and manages a small manufacturing business. The following balances have been extracted from her books of account at 31 January 2009.

	Dr. Kshs.	Cr. Kshs.
Capital at 1 February 2009		171,120
Accounts payable		86,000
Bank and cash balance	5,400	
Accounts receivable	92,000	
Drawings	60,000	
Administration expenses	150,360	
Advertising expenses	12,000	
Factory direct wages	60,000	
Factory indirect wages	24,000	
Factory power	36,000	
Furniture and fittings (All offices)	18,400	
Heat and light	16,000	
Plant and equipment	276,800	
Motor vehicle (used by salesmen)	144,000	
Plant hire	4,000	
Provision bad debts		3,200
Provision for depreciation 1 Feb. 2009:		
- Furniture and fittings		9,200
- Plant and equipment		138,400
- Motor vehicle		24,000
Raw material purchases	228,000	
Rent rates	20,000	
Sales		829,440
Selling and distribution expenses	66,400	
Inventories at cost, 1 Feb. 2009		
- Raw materials	8,000	
- Work in progress	16,000	
- Finished goods	<u>24,000</u>	
	<u>1,261,360</u>	<u>1,261,360</u>

The following additional information is provided:

- i) Accruals at 31 January 2010 were:
- |                |             |
|----------------|-------------|
| Factory power  | - Sh. 1,600 |
| Rent and rates | - Sh. 4,000 |

There was also prepayment of Sh. 800 for salesmen's motor vehicle insurance.

- ii) Inventories at 31 January 2010, were valued at cost as follows:
- |               |              |
|---------------|--------------|
| Raw materials | - Sh. 15,200 |
|---------------|--------------|

- Work in progress - Sh. 30,400  
 Finished goods - Sh. 45,600
- iii) Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.
- iv) Expenditure on heat and light, and rent and rates is to be appropriated between the factory and office on the ratio of 9:1 and 3:2 respectively.
- v) The provision for bad debts is to be made equal to 5% of accounts receivable at 31 January 2016.

**Required:**

Prepare Bibi Maridadi's manufacturing account and income statement for the year ended 31 January 2010 and a statement of financial position as at that date. (20 marks)

**QUESTION THREE**

(a) A sole trader's capital position is as follows:

	2009	2010
	Kshs.	Kshs.
Motor vehicle:		
Cost	7,500	7,500
Depreciation	<u>3,000</u>	<u>4,500</u>
	4,500	3,000
Stock	2,960	3,450
Debtors	1,150	2,060
Bank	925	2,125
Cash	<u>263</u>	<u>54</u>
	9,798	10,689
Creditors	<u>2,860</u>	<u>3,340</u>
Net assets	<u>6,938</u>	<u>7,349</u>

He has estimated his drawings for 2010 at Kshs. 12,500. Estimate Net profit for the year

(5 marks)

(b) Outline and explain the contents of partnership agreement

(10 marks)

(c) Discuss two factors that contribute to goodwill in any business

(5 marks)

**QUESTION FOUR**

M Ltd has an authorized ordinary share capital of 500,000 ordinary shares of Kshs. 10 each. The company's balance as at 30<sup>th</sup> December, 2015 were as follows:

	Kshs.
Issues share capital	3,900,000
10% Debentures	1,020,000
Land	3,100,000
Fixtures	2,300,000 (cost)
Motor vehicles	2,600,000(cost)
Trade receivables (debtors)	850,000
Creditors	700,000
Purchases	2,859,000

Sales	4,580,000
Admin expenses	125,000
Bad debts	73,000
Opening stock	325,000
Debenture interest paid	51,000
Salaries	450,000
Directors pay	210,000
Insurance	30,000
Bank	477,000
Accum.Dep – Fixtures	1,500,000
Motor vehicles	1,250,000
Revenue reserves	400,000
General reserves	100,000

Additional information:

1. Closing stock was valued at Kshs. 345,000
2. Salaries outstanding amount to Kshs 25,000.
3. Insurance paid in advance amounts to Kshs 4,500.
4. Corporation tax is estimated at Kshs. 150,000
5. Depreciation is provided on furniture at 10% p.a. on cost and all motor vehicles at 20% on Net Book Value (NBV).
6. A dividend of 10% has been proposed for the ordinary shareholders and a transfer of Kshs 30,000 to the general reserve.

**Required:**

Income statement and statement of financial position for the year ended 30<sup>th</sup> December, 2015

(20 marks)

**QUESTION FIVE**

- (a) Financial ratios are classified into various categories. State and explain five classifications of financial ratios with examples in each category. (10 marks)
- (b) Explain the importance of studying financial accounting by students pursuing cooperative management in The Cooperative University of Kenya. (10 marks)