

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2022/2023 ACADEMIC YEAR

**SECOND YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE**

BCOM 222: INTERMEDIATE ACCOUNTING 2

STREAM: BCOM

TIME: 2 HRS

DAY: TUESDAY [8.30-10.30 A.M.]

DATE: 18/04/2023

THIS QUESTION PAPER CONSISTS OF SIX (6) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.



Instructions:

1. Answer question one compulsory and any other two questions.
2. Start a new question on a new page
3. Show all working on the answer sheet
4. Do not write anything on the question paper

QUESTION ONE

- a) Briefly state the reason why a company would not wish to distribute all its profits to its stakeholder as dividends. **(5marks)**
- b) The following balances were extracted from the book of Nyansiongo Traders Ltd as at 30th September 20x1 in shillings

	Dr.	Cr.
Ordinary shares of sh. 20 each fully paid		600,000
8% Preference shares sh. 20 each fully paid		100,000
Share premium account		80,000
6% loan stock		100,000
Trade Creditors and Debtors	330,000	148,000
Sales and Purchases	4,220,000	4,800,000
Discount allowed & received	5,000	13,000
Freehold buildings: At cost	500,000	
Provision for depreciation		50,000
Fixtures and fittings: At cost	640,000	
Provision for depreciation		256,000
Stock at 1 st October 20x0	420,000	
Return outwards	80,000	
Establishment expenses	130,000	
Selling and distribution expenses	167,000	
Advices expenses	56,000	
Bad debts written off	4,000	
Provision for doubtful debts	18,000	
Retained profits at 1 st October 20x0		362,000
Goodwill	160,000	
Bank overdraft	_____	25,000
	6,632,000	6,632,000



The following information is available.

1. Depreciation is provided annually on the cost of fixed assets held at the end of financial year at the following rates: Freehold buildings 20%, Fixtures and fittings 10%.
2. Trade debtor's balance includes sh. 10,000 due from Maribe who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as bad
3. The provision for doubtful debts as at 30th September 20x1 is to be 5% of trade debtors.
4. Establishment expenses accrued at 30th September 20x1 amounted to sh. 4,000.
5. Administration expense accrued at 30th September 20x1 amounted to sh. 7,000.
6. The company paid the interest on the loan stock for the year ended 30th September 20x1 on 30th October 20x1.
7. Closing stock was valued at sh. 560,000
8. The company's directors propose that the share dividend of 10% ordinary share be paid.

Required:

- i) Trading, profit and loss account and appropriation account for the year ended 30th September 20x1 of Nyansiongo Traders Ltd. **(9marks)**
 - ii) Balance sheet as at 30th September 20x1. **(8marks)**
- c) Shares may be issued at per value, at a premium or at a discount.

Required:

- i) When will shares be issued at a premium, at discount or at par? **(3marks)**
- ii) As per the law, premium raised is part of capital and cannot be used for any other purpose apart from those approved.

Required:

Discuss the various ways in which we can use share premium. **(5marks)**



QUESTION TWO

- a) The comparative balance sheet for Ndutura foods Inc. for 20x7 and 20x8 is as follows:
Balance sheet of December 31

	20x7	20x8
	Shs	Shs
Assets		
Cash	24,200	3,150
Accounts receivable	3,630	5,100
Merchandise inventory	28,000	22,600
Prepaid rent	1,070	350
Equipment	72,000	70,000
Accumulated depreciation	(59,000)	(36,700)
Land	<u>25,000</u>	<u>58,000</u>
Total assets	<u>94,900</u>	122,500
Liabilities and equity		
Accounts payable inventory	20,000	18,600
Salaries payable	5,600	6,100
Stock holders payable		
Common stock sh. 50 per value	60,000	75,000
Retained earnings	<u>9,300</u>	<u>22,800</u>
Total liabilities and equities	<u>94,900</u>	<u>122,550</u>

Income statement for the period ended December 31st 20x8

Sales	240,000
Cost of goods sold	(132,000)
Gross profit	(108,000)
Operating expense	
Depreciation expense	(5,700)
Rent expense	(3,500)
Salaries expenses	(47,300)
Other operating expense	(38,000)
Net income	13,500

Other information

- i. Purchased land of sh. 33,000
- ii. Purchased equipment for sh. 31,000
- iii. Sold old equipment that cost sh. 33,000 with accumulated depreciation of sh. 28,000 for sh. 5,000 cash.
- iv. Issued common stock for sh. 15,000



Required

Prepare the statement of cash flows for 20x8 as per IAS NO.7 (14marks)

- b) Shareholders of organizations enjoy some rights and privileges.

Required

Explain these rights and privileges of an ordinary shareholder. (6marks)

QUESTION THREE

- (a) Mzuri Sana Company Ltd., was started 50 years ago with 100,000 shares of 10/= each and sh. 10,000,000 in its bank account. The company has continuously had to retain a proportion of its profits to finance operations, thus diverting profits from dividends in order to finance expansion and working capital

The firm's balance Sheet as at 31st December 2020 was as follows:

MZURI SANA COMPANY LTD.
BALANCE SHEET AS AT 31ST DECEMBER 2020

	('000')
Net Fixed assets	50,000
Net Working Capital	<u>50,000</u>
	100,000

Financed by:

Share capital	10,000
Reserves (including P&L)	<u>90,000</u>
	<u>100,000</u>

The financial controller has advised that 70,000,000 of the reserves cannot be used for distribution due to the fact that total assets must remain at 80,000

The board therefore decided that the 70,000,000 would be converted into permanent capital by issuing 7 bonus shares for every 1 held.

Required

- i) Show the journal entries to effect the above changes. (6marks)
ii) Prepare Financial Position after the change (6marks)

- (b) Ordinary shareholders and preferred shareholders are both owners of an organization.

Required

With your experience in intermediate accounting 2, state why you would choose to either hold ordinary or preference shares. (8marks)

QUESTION FOUR

- a) Sonko Trading Company Ltd has an authorized capital of sh. 500,000 divided into 5000 ordinary shares of sh. 100 each. On 1st January 20x1, the board of directors decided to issue 4000 shares at sh. 125 each payable as sh. 50 on application, sh. 50 on allotment (including the sh. 25 premium) and sh. 25 on first and final call. The applications were receivable on 20th January 20x1 when allotment was made. The allotment money was received on 15th February 20x1. The 1st and final call was made on 15th May 20x1. Applications were received for 6000 shares. The directors decided to refund money for 1000 shares and the other applicant were allotted prorata with the excess money utilized to meet part of the allotment money. The balance of the allotment money was received on the due date. The first and final call was made and the call money received on due date except for allottees of 200 shares. The 200 shares with calls in arrears were forfeited on 10th April 20x1 and sold for cash at sh. 85 each in 12th April 20x1. Note: No other transaction took place during the above period.

Required

- i) Application and allotment account, first and final call account ordinary share capital account, share premium account, call in arrears account, forfeited shares account, and the bank account. **(10marks)**
- ii) Balance Sheet as at 12th April 20x1. **(2marks)**
- b) The law relating to negotiable instruments of which a bill of exchange and a promissory note are examples.

Required

- Differentiate between a promissory note and a bill of exchange. **(8marks)**

