NATIONAL UNIVERSITY OF LESOTHO

B.ED SUPPLIMENTARY EXAMINATIONS

BE300-6 – BUSINESS ACCOUNTING II

July, 2009 MARKS: 100 TIME: 3 HOUR

INSTRUCTIONS: **Answer any 4 questions.**

1. (a) On 10 May B. Booth Ltd offered for subscription 300 000 shares of M1 each at a premium of M0.25 per share payable as follows:

On application	M0.50 per share, including the premium
On allotment 31 May	M0.50 per share
On 31 July	M0.25 per share.

Applications were received for 424 000 shares. Applications for 24 000 shares were refused and the shares were allotted pro rata to the remaining applicants. Excess money paid on application was treated as part payment of the amount due on allotment. All money was received on the due dates.

You are required to make entries in the company's ledger to record the above transactions. (14)

(b) The authorised share capital of K. Botebo Ltd was M200 000 divided into 200 000 ordinary shares of M1 each. The directors of the company issued 100 000 shares and called up the full amount. A subscriber for 1 200 shares failed to pay the first call M0.25 per share and the final call of M0.25 per share and the shares were forfeited.

You are required:

(i) to draft the journal entries recording the forfeiture, and (6)

(ii) to show how the share capital will subsequently appear in the company's balance sheet. (5)

(25)

2. Lejoe is a sole proprietor of a sweet manufacturing business and his trial balance at 31 December 2005 included the following entries:

Capital account: Lejoe	20 400
Freehold land and buildings at cost	15 000
Plant and machinery at cost	14 500
Plant and machinery, provision for depreciation	7 000
Loose tools and utensils at valuation on 1 January 2005	1 200
Stocks, 1 January 2005	
Raw materials	3 300
Finished goods (25 tons)	6 000
Purchases	
Raw materials	18 500
Tools and utensils	800
Sales 210 tons	66 000
Wages	
Factory	13 640
Administration	5 400
Rates and insurance	1 600
Repairs to buildings	1 000
Electricity and power	6 000
Administration expenses	2 810

You are given the following information:

Closing stocks on 31 December 2005: raw materials M2 800; finished goods (15 tons) M3 900; loose tools and utensils, M1 600.

Provision is to be made for the following amounts owing on 31 December 2005: electricity and power M800, new machinery M500.
Annual depreciation on plant and machinery is to be provided at the rate of 15% on cost at the end year.
Expenses are to be allotted as follows:

	Works	Adminstration
Rates and insurance	7/10	3/10
Repairs	4/5	1/5
Electricity and power	9/10	1/10

You are required to prepare the manufacturing account for the year ended 31 December 2005 and to calculate the works cost and administration cost per ton produced. (25)

3. Setsu and Letsoho are sole traders operating independent businesses in competition with each other. The summarised balance sheets of the two businesses at 1 November 2004 were as follows:

	Setsu	Letsoho
Capital accounts	266 000	259 000
General reserve	24 500	
Accounts payable	49 000	56 000
	339 000	315 000
Land and buildings, at cost	105 000	70 000
Furniture and fixtures, at cost	20 000	15 000
Provision for depreciation		
- furniture and fixtures	(6 000)	(4 500)
Motor vehicles at cost	50 000	30 000
Provision for depreciation		
- Motor vehicles	(15 000)	(5 500)
Accounts receivable	42 000	56 000
Stock	56 000	84 000
Bank	31 500	70 000
Listed investments	46 000	
Goodwill	10 000	
	339 000	315 000

On 1 November 2004 Setsu and Letsoho agreed to combine their businesses and form a partnership, subject to the following terms and conditions:
The partners would share profits and losses equally.
It was agreed that both partners would contribute the assets and liabilities shown on their respective balance sheets subject to the following valuations:
Setsu's assets and liabilities are agreed to be fairly valued, except for his land and buildings which are undervalued by M45 000.

Letsoho's liabilities are fairly stated, whilst his assets are agreed to be as follows:

Land and buildings	100 000
Furniture and fixtures	8 000
Motor vehicles	30 000
Stock	70 000
Goodwill	14 000

Accounts receivable at book value, but subject to a provision for doubtful debts of M6 000.

Goodwill is not to be shown in the books of the partnership

Required:

(a) Make journal entries to open the books of the new partnership. (10)

(b) Draw an opening balance sheet of Setsu and Letsoho. (15)

(25)

4. F. L. Mariea did not keep proper books of account. The following information relates to his business for the year ended 31st December, 2004.

Assets and Liabilities at 1st January 2004

Cash in hand and balance at bank M541; Sundry trade debtors M194; Stock M989; Furniture and fittings M250; Motor vn M600; Sundry trade creditors M1 240.

Cash Book Summary for the Year ended 31st December 2004

Receipts		Payments	
Cash sales	M6 943	Payments to trade creditors	5 988
Receipts from Debtors	1 236	Drawings	700
		Rent, rates and insurance	540
		Light and heat	42
		Motor van expenses	226
		Repairs and renewals	17
		New shop fittings	50
		Refunds to customers on Cash sales	3
		General expenses	84

Prepare Mariea's trading, and Profit and Loss Account for the year ended 31 st December, 2004.

On 31st December 2004

a) Stock was valued at cost M910, sundry trade debtors were M136, and, sundry trade creditors M1 570;

b) Light and heat outstanding was M11;

c) Rates and insurance prepaid were M30;

d)10 per cent depreciation is to be written off the balance of furniture and fittings at 31st December 2004 and 20 per cent off the value of the motor van at 1st January, 2004.

(25)

5. You are consulted by a client who id considering investing in the shares of either Connery Limited or Moore Limited.
The following data have been extracted from the latest financial statements of the two companies.

Summarised Balance Sheets

	Connery Limited	Moore Limited
Equities		
Issued Share Capital, M1 par value	300 000	300 000
Retained Income	189 000	255 000
Long-Term Loan	150 000	150 000
Current Liabilities	120 000	150 000
	759 000	855 000
Assets		
Fixed assets	497 400	523 500
Stock	132 000	164 400
Debtors	90 000	120 000
Cash	39 600	47 100
Abridged Income Statements		
Sales	1 791 000	2 088 000
Cost of sales	1 291 500	1 506 600
Gross income	499 500	581 400
Operating expenses	426 000	501 000
Interest expense	9 000	10 500
Net Income before tax	64 500	69 900
Taxation	14 100	15600
Net Income	50 400	54 300
Balances at the beginning of the year:		
Stock	111 000	162 000
Debtors	80 000	115 000
Total assets	741 000	831 000
Ordinary shareholders' interest	471 000	531 000

The company rate of tax is 42 %

Required: Prepare a report, setting out to your client which company you consider to be the better investment. Support your report with ratios and analysis which you consider to be relevant.

(25)