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 **GARISSA UNIVERSITY**

 **SCHOOL OF BUSINESS AND ECONOMICS**

 **DBM 13: FINANCIAL AND COST ACCOUNTING**

 **MAIN EXAMINATION AUGUST 2021**

**Instructions: Answer Question ONE and Any other TWO Questions from Section B**

 **Question one**

i). Discuss methods of partnership dissolution (5 marks)

 ii). Discuss the assumption of break-even point (B.E.P) (5marks)

 iii). A Product passes through two distinct processes A and B and

 Thereafter it is transferred to finish stock.

|  |  |  |
| --- | --- | --- |
|  | Process A (shs) | Process B (shs |
| Materials consumed | 12,000 | 6,000 |
| Direct Labour | 14,000 | 8,000 |
| Manufacturing expenses | 4,000 | 4,000 |
| Input in Process A (unit) | 10,000 |  |
| Input in Process B (unit) | 10,000 |  |
| Output (unit) | 9,400 | 8,300 |
| Normal wastage percentage of input | 5% | 10% |
| Value of normal wastage (per units) | 8 | 10 |

**Required:**

i)Prepare process cost account and abnormal loss or gain account (15 marks)

ii)Distinguish between Marginal Costing and Absorption costing (5 marks)

 **Total: 30marks**

**Question Two**

Kyamba, Onyango and Wakil were partners in a manufacturing and retail

 business and shared profits and losses in the ratio 2:2:1 respectively

 Given below is the balance sheet of the partnership as at 31 March 2015.

**Balance sheet as at 31 March 2015**

**Assets** Sh. Sh.

Non-current assets:

Fixed assets 465,000

Current assets:

Stock 294,000

Debtors 209,000 503,000

 968,000

**Capital and liabilities:**

 Capital accounts:

 Kyamba 160,000

 Onyango 140,000

 Wakil 200,000

 500,000

 Current accounts:

 Kyamba 65,300

 Onyango 49,000

 Wakil 53,000

 167,300

 667,300

 Current Liabilities:

 Bank overdraft 48,000

 Trade creditors 252,000

 300,700

 968,000

**Additional information:**

1. On 1 April 2015, Wakil retired from the partnership and was to start a business as a sole trader while Kyamba and Onyango continued in partnership.
2. On retirement of Wakil, the manufacturing business was transferred to him while Kyamba and Onyango continued with the retail business

 The assets and liabilities transferred to Wakil were as follows:

 Net book value Transfer value

 Sh Sh.

 Fixed assets 260,000 306,000

 Stocks 166,000 157,000

 Debtors 172,000 165,000

 Creditors 156,000 156,000

 Wakil obtained a loan from a commercial bank and paid into the partnership the net amount due for him.

1. On retirement of Wakil form the partnership, goodwill was valued at Sh.200, 000 but was not to be maintained in the books of the partnership of Kyamba and Onyango.
2. After retirement of Wakil on 1 April 2015, Kyamba and Onyango agreed on the following terms and details of the new partnership.
	* Kyamba and Onyango to introduce additional capital of Sh.48, 000 and Sh.68, 000 respectively.
	* Each partner was entitled to interest on capital at 10% per annum with effect from 1 April 2015 and the balance of the profits be shared equally after allowing for annual salaries of Sh.72, 000 to Kyamba and Sh.60, 000 to Onyango.
3. The profit of the new partnership before interest on capitals and partners’ salaries was Sh.240,000 for the year ended 31 March 2016.
4. The profits made by the new partnership increased stocks by Sh.100,000, debtors by Sh.90,000 and bank balance by Sh.50,000.

7. Drawings by the partners in the year were Kyamba Sh.85,000 and Onyango Sh.70,000.

**Required:**

1. Profit and loss and appropriation account for the year ended 31 March 2016 (5 marks)
2. Capital accounts for the year ended 31 March 2016. (5 marks)
3. Current accounts for the year ended 31 March 2016. (5 marks)

d) Balance sheet of the new partnership as at 31 March 2016. (5 marks)

 **Total(30 marks)**

**Question Three**

ABC Ltd. deal in electronic goods .the head office is in Nairobi and there are five

 branches in main towns of Kenya.All purchases are made by the head office and

 goods are charged to branches at cost plus 25%.

The following information relates to Garissa Branch for the year ended 31st December 2019:

 **Opening balances at January 1,2019**: shs

Branch stock (selling price) 30,000

Branch debtors 45,000

 **Closing balances at 31st December 2019**:

Branch stock (selling price) 25,000

**Transactions for the year**:

Goods sent to branch (selling price) 250,000

Goods returned by branch to H.O. (selling price) 20,000

Cash sales 80,000

Credit sales 270,000

Returns from customers 10,000

Discount allowed 3,000

Bad debts written off 2,000

Branch expenses 50,000

Goods stolen at branch 3,000

Cash stolen at branch 1,500

Cash received from branch debtors 245,000

**Required:**

Prepare the necessary accounts in the head office books for Garissa branch

For the year ending 31st December 2019. **(20 marks)**

**Question Four**

a)i)Highlight assumption of Economic Order Quantity (5 marks)

 ii) Discuss the objectives of a budget (5 marks)

 iii) Distinguish between purchased goodwill and non-purchased goodwill (4 marks)

 b) The Annual demand of ABC Ltd is 4,400,000 units. The cost per units is 220 and the cost of

Placing an order is 550.annual inventory holding cost is 20% of purchase cost of the inventory

**Required:**

i. Economic order quantity (EOQ)

ii. Annual number of orders

iii Total cost of inventory under the EOQ (6 marks)

 **(20Marks)**

**QUESTION FIVE**

a) Identify five characteristics of contract costing system (5 marks)

b) Explain the factor that will lead to rise of goodwill in business (3 marks)

c) A and B have been trading as partners sharing profits and losses equally.

They decided to change profit sharing ration to 3:2. The capital balances are:

A: Sh.1, 000,000

B: Sh.1, 500,000

Goodwill has been agreed at Sh.500, 000.

 **Required:** The partner’s capital balances assuming that:

1) Goodwill is to be retained in the accounts

2) Goodwill is to be written off from the accounts. (4 marks)

d) The following information was extracted from the books of Happy Holdings regarding its stocks.

 Units per week

 Normal weekly usage 900

 Normal Reorder Period 5 weeks

 Minimum weekly usage 600

 Maximum weekly usage 1,200

 Maximum Reorder period 6 weeks

 Minimum Reorder period 4 weeks

 Reorder Quantity 6,000 units

 **Compute;**

 i). Re-order level

 ii) Maximum stock level

 iii) Minimum stock level

 v) Average stock level (8 marks)

 **Total: 20 marks**