



MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR**

FIRST YEAR END OF SEMESTER EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 122

COURSE TITLE:- PRINCIPLES OF ACCOUNTING II

DATE:- 19TH APRIL, 2016

TIME:- 2.00 P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ **SEE INSIDE.**

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BBM 122: PRINCIPLES OF ACCOUNTING II

Instruction: ANSWER Question ONE and ANY Other THREE Questions

QUESTION ONE

- (a) State any five advantages of bills of exchange (5 marks)
- (b) Explain the concept of statement of affairs and discuss its importance in single entry accounting (3 marks)
- (c) Distinguish between “a receipts and payments account” and income expenditure account (7 marks)
- (d) Osiemo and Kipkosgei are in partnership and share profit and losses in the ration 3:2. On 31st December 2014 their statement of financial position was as follows

<u>Fixed asset</u>	<u>Sh ‘000’</u>	<u>Sh ‘000’</u>
Freehold property		20,000
Motor cars		5,000
Office equipment		3,000
		<u>28,000</u>
<u>Current assets</u>		
Stock	3,000	
Debtors	2,500	
Cash at Bank	<u>1,500</u>	
	7,000	
<u>Less current liabilities</u>		
Creditors	<u>(5,000)</u>	<u>2,000</u>
		<u>30,000</u>
Financed by:-		
Capital :- Osiemo	20,000	
Kipkosgei	<u>10,000</u>	<u>30,000</u>

On 1st January 2015 they admit Wafula as their partner on the following conditions:-

- (i) Wafula was to bring in Sh 10,000,000 as capital
- (ii) The profit sharing ratios would be 3:1:1
- (iii) It was agreed to revalue certain assets before admitting Wafula as follows:-

	Sh '000'
Freehold property	27,000
Motor cars	4,000
Office equipment	2,500
Stock	3,750

REQUIRED:-

- (a) Prepare the revaluation account **(5 marks)**
- (b) Show the partners capital account **(5 marks)**

QUESTION TWO

a. Explain the following concepts in accounts for nonprofit organizations:-

- (i) prizes **(2 marks)**
- (ii) Legacies **(2 marks)**

b. Mamboleo limited offered 50,000 ordinary shares of Sh 1 at Sh 1.25 payable as follows:-

- On application Sh 0.25
- On allotment
- (including premium) Sh 0.50
- On 1st call Sh 0.25
- On 2nd call Sh 0.25

Applications were received for 60,000 shares. An application for 10,000 shares were rejected. Allotment money due was received, first call was made after one month and second call after two months all money's due on 1st and 2nd call were received except for 1000 shares. These shares were forfeited after three months and then re-issued for Sh 0.70 each as fully paid.

Required:- show the relevant ledger accounts for the transactions **(11marks)**

QUESTION THREE

The treasurer of Nandi Bears club has prepared the following:-

Receipts and payments accounts

For year ended 31st December 2015

Receipts	<u>Sh</u>	payments	<u>Sh</u>
<u>1st Jan 2015</u>	<u>Sh '000'</u>		<u>Sh '000'</u>
Cash and Bank	1,141	wages	30,870
Deposit	36,400	Rents and rates	7000
31 st December 2015		Repairs to pavilion	4,900
Members subscription	31,710	Games and equipment	23450
Bar receipts	142,240	New lawn mowers	
Surplus on dance	13,510	(less proceeds of	
Interes on deposit	1,960	sales of old lawn	
Donation	980	Mower (sh 3150)	10850
Competition fees	1,260	Bar purchases	106680
		Secretarial charges	3290
		Miscellaneous expenses	3500
		Prizes	1540
Cash and Bank	8,540	Deposit	38850
	<u>239470</u>		<u>239470</u>

The following addition information is provided:-

- (i) Other current assets and liabilities were as follows:-

	<u>1.1.2015 ('Sh 000')</u>	<u>31.12.2015 (Sh '000')</u>
Value of bar stocks (at cost)	9170	7700
Subscription due but not relieved	3990	3010
Creditors for bar suppliers	2800	2310
Amount due for secretarial services	1400	1610
Miscellaneous expenses paid in advance	840	560

- (ii) At 1st January 2015 (the book values of fixed assets were pavilion – Sh 1,015,000,000 (cost 224,000,000) and lawn mowers sh 1050,000 (cost sh 9,450,000)
- (iii) The club provided depreciation on fixed assets on straight line basis at the rate of 10% par annum on pavilion and 20% per annum on new lawn mower and games equipment.

REQUIRED:-

- (a) Statement showing the accumulated fund at 1st January 2015 (3 marks)
- (b) Income and expenditure account for year ended 31st December 2015 (6 marks)
- (c) Statement of financial position as at that date (6 marks)

QUESTION FOUR

Wanjiku , Odhiambo and Kimani were business partners sharing profits and losses in the ratio 5:3:2 respectively. On 1st April 2014 , they dissolved the partnership . A statement of financial position on that day reflected the following financial position.

Statement of financial position as at 1st April 2014

Fixed assets	Sh, 000
Motorvehicles	27,980
Furniture and fittings	20,000
Stock	8,020
Sundry debtors	6,800
Cash in hand	2,000
	64,800
Capital Accounts	
Wanjiku	25,000
Odhiambo	13,500
Kimani	7,200
Loan-Kimani	4,600
Trade creditors	10,000
General Reserve	4,500
	64,800

For the purpose of distribution of assets it was decided that all assets would be converted into cash, all the cash would be shared out immediately it became available subject to payment in full of all other liabilities as required by the partnership act. To achieve equal distribution of sale proceeds it was agreed:

- i) That the general reserve would be shared between partners in the profit sharing ratio.
- ii) That the adjusted capital balances in their capital accounts would be refunded in profit sharing ratio.

The assets were sold as follows :

April 2014:- motorvehicles (part) realized sh 6000,000

May 2014:- All debtors paid amounts due from them

June 2014:- Some of the stocks were sold for sh 5,600,000

July 2014:- The remaining vehicles were sold for sh 22,000,000

August 2014:- Half of the furniture and fittings were sold for sh 13,500,000

Sept 2014:- The remaining stocks were sold for sh 2,000,000

October 2014:- The remaining furniture and fittings were sold for sh 8,000,000

Dissolution expenses amounting to sh 1,200,000 and were paid in September.

Required:-

- i) Statement setting out the priority in which the proceeds of sale were distributed using gradual realisation method (15 marks)

QUESTION FIVE

- a) Distinguish between the average profits approach and super profits approach for the valuation of goodwill (8 marks)
- b) State the seven essentials of a valid bill of exchange (7 marks)

QUESTION SIX

- a) Explain any five clear distinctive features between a receipts and payments account and income and expenditure account (10 marks)
- b) State the rule of insolvency of partnership in Garner V Murray (5 marks)

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