BBM 122: PRINCIPLES OF ACCOUNTING II

Instructions to Candidates: ***Answer question ONE and any other THREE Questions***

QUESTION ONE

i. Defined the term not for profit organizations and differentiate it from commercial concerns. **(6 marks)**

ii. The following is the Receipts and Payments Accounts of Apollo Club in respect of the year 2014

Dr			Receipt and Payments a/c for the year 2006		Cr
Date	Receipts	Amount (shs)	Date	Payments	Amount
1st Jan	Balance b/d – cash	56000	1st Jan to 31st Dec, 2006	Ground's man wages	300000
	Balance b/d – bank	35000		Ground rent	150000
	Balance b/d – F. D.	75000		Repairs on pavilion	12000
1st Jan to 31st Dec	Subscriptions	415, 000		Cricket equipment	40000
	Bar Takings	425, 000		8% Govt. securities	100000
	Surplus on tournament	38, 800		Bar purchases	305000
	Bank interest	3, 500		Sundry expenses	7800
	Donations	25, 000		Insurance	3500
				Balance b/d – cash	42000
				Balance b/d – bank	13000
				Balance b/d – F.D	100000
		1073300			1073300

Additional information:

i. Pavilion was the only asset having a book value of shs 450000 (cost 750000 less depreciation 300000). Depreciation for the year amounted to shs 25000.

ii. Expenditure on cricket equipment is to be written off in the year in which it was incurred.

iii. Other assets and liabilities were as follows:

31st December

	2013	2014
Bar stocks	15000	25, 000

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UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:- **BBM 122**

COURSE TITLE:- **PRINCIPLES OF ACCOUNTING II**

DATE:- 8TH DECEMBER, 2016 **TIME:- 2.00P.M – 5.00P.M.**

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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300,700
968,000

Additional information:

1. On 1 April 2001, 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.
3. 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.
4. After retirement of Wakil on 1 April 2001, 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 2001 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.
5. The profit of the new partnership before interest on capitals and partners' salaries was Sh.240, 000 for the year ended 31 March 2002.
6. 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:

a) Profit and loss and appropriation account for the year ended 31 March 2002. **(4 marks)**

b) Capital accounts for the year ended 31 March 2002 **(2 marks)**

c) Current accounts for the year ended 31 March 2002. **(2 marks)**

d) Balance sheet of the new partnership as at 31 March 2002. **(5 marks)**

(Total 15 marks)

QUESTION THREE

Creditors for Bar purchases	46000	67, 000
Creditors for sundry expenses	900	1, 200
Insurance in advance	750	600
Rent owing	35, 000	40, 000

iv. The club does not wish to take any credit for subscriptions.

v. In December 2006, the club decided to set up a special fund of shs 100, 000 as endowment for the best player award. This was invested in 8% Govt. securities as shown above.

Required:

a. Statement showing Capital fund as at 31st December, 2014. **(4 marks)**

b. Income and expenditure a/c for the year ended 31st December, 2014. **(9 marks)**

c. Balance sheet as at 31st December, 2014. **(6 marks)**

(Total 25 marks)

QUESTION TWO

a) Kyamba, Onyango and Wakil were partners in a manufacturing and retail business and shared profits and losses in the ratio 2:2:1 respectively

Balance sheet as at 31 March 2001

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		

i. Outline the four contents of the partnership deed. **(4 marks)**

ii. Briefly explain the following terms as used in accounting for companies:

a. Rights Issue **(2 marks)**

b. Bonus Issue **(2 marks)**

iii. Explain the different ways in which a partnership firm may be dissolved. **(7 marks)**

(Total 15 marks)

QUESTION FOUR

a. Akili, Busara and Chema are in partnership sharing profits sharing profits and losses equally after allowing for interest on capital at 5% per annum to the partners and a salary to Busara of Sh.20, 000 per month. The trial balance of the partnership as at 30 April 2006 was as follows:

		Sh.'000'	Sh.'000'
Capital accounts:	Akili		2,500
	Busara		2,000
	Chema		1,000
Current accounts:	Akili		200
	Busara		300
	Chema		200
Drawings:	Akili	300	
	Busara	400	
	Chema	200	
Sales			20,000
Inventory as at 1 May 2005		3,000	
Purchases		10,300	
Operating expenses		6,400	
Loan:	Busara (Interest at 10% per annum)		1,000
	Chema (Interest at 10% per annum)		2,000
Land		1,000	
Buildings		5,000	
Plant and machinery:	Cost	7,000	
	Accumulated depreciation (30 April 2006)		4,000
Accounts receivable/accounts payable		4,000	3,300
Cash at Bank			1,100
		37,600	37,600

Additional Information

i. Closing inventory as at 30 April was valued at sh.2, 400, 000.

ii. Interest on loans had not been paid.

iii. Sales include credit sales of Sh.600, 000 in respect of two items sold on the basis of confirmation by the customers. The items had cost Sh.100, 000 each. As at 30 April 2006, the customers had not confirmed whether they would buy the goods.

iv. On 1 November 2005, the terms of the partnership agreement were changed. The new terms provided for:

- Profit sharing ratio of 5:3:2 for Akili, Busara and Chema respectively.
- Interest on capital at 5% per annum.
- Salaries of Sh.10, 000 per month to Busara and Chema.

v. For the purpose of the change, goodwill was valued at Sh.1, 200, 000 and was to be written off immediately while the land buildings were valued at Sh.2, 000, 000 and Sh.6, 400, 000 respectively.

Required:

i. Trading, Profit and loss and appropriation accounts for the year ended 30 April 2006. **(6 marks)**

ii. Partners' capital and current accounts **(6 marks)**

iii. Balance sheet as at 30 April 2006 **(3 marks)**

QUESTION FIVE

Walimu Ltd issued a prospectus inviting applications for 5,000 Ordinary shares of shs12 each at a premium of Shs 3 per share payable as follow:

On application	Shs.3
On allotment (including premium)	Shs. 6
On first call	Shs. 3
On final call	Shs. 3

Applications were received for 8,000 shares and allotment was made on pro rata to the applicants for 7,400 shares. Money overpaid on application by the allotees was employed on account of sums due on allotment. Kioko to whom 240 shares were allotted, failed to pay the allotment money and on his failure to pay the first call, his shares were forfeited.

Juliet the holder of 160shares failed to pay the two calls and her shares were forfeited after the 2nd call. The shares forfeited were sold to Kiptoo credited fully paid for Shs. 9 per share.

Required:

i. Journal entries or account entries **(10marks)**

ii. Cash book **(3marks)**

iii. The balance sheet **(2 marks)**

QUESTION SIX

i. Explain events that take place during retirement of an old partner as well as when a partner is admitted in the partnership firm. **(6 marks)**

ii. Write short notes on the following and indicate their accounting treatment:

a. Entrance Fees **(3 marks)**

b. Subscriptions **(3 marks)**

c. Legacy **(3 marks)**