

BBM 122: PRINCIPLES OF ACCOUNTING 2

MAIN EXAMINATION

Instructions: Answer Question **ONE** and Any Other **TWO**

**QUESTION ONE**

- a) Kenya has experienced rapid developments in the Accounting Standards, Regulations. Industry practices and technological advancements. What should the government of Kenya do in order to engage all accountants in the process? **(5 marks)**
- b) Write brief notes on the following:
- i. Forfeiture of shares **(2 marks)**
  - ii. Calls in arrears **(2 marks)**
- c) Discuss the circumstances that may lead to dissolution of a partnership in Kenya. **(5 marks)**
- d) Anita, Brian and Clive have been in partnership for many years. Their bookkeeper has just produced the following summarized income statement for the year ended 31 December 2011.

	Shs
Revenue	1,200,000
Cost of sales	(720,000)
Gross profit	480,000
Expenses	<u>(300,000)</u>
Net profit before appropriations	<u>180,000</u>

**Additional information:**

- i. The partnership agreement states that interest is to be credited at 6% per annum on the year-end capital accounts.
- ii. The partners are entitled to the following salaries per annum:
  - Anita shs 32,000
  - Brian shs 22,000
  - Clive shs 13,000
- iii. The partners made the following cash drawings during the year:
  - Anita shs 41,200
  - Brian shs 28,400
  - Clive shs 26,800
- iv. The balance on the capital and current accounts at the beginning of the year were:

**Capital accounts**

  - Anita shs 50,000 credit
  - Brian shs 44,000 credit
  - Clive shs 6,000 credit



MUEO

**MOI UNIVERSITY**

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

**UNIVERSITY EXAMINATIONS  
2014/2015 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:- 9<sup>TH</sup> DECEMBER, 2015**

**TIME:-9.00A.M. – 12.00NOON**

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**INSTRUCTION TO CANDIDATES**

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**Additional information:**

	1-4-2004	31-3-2005
i. Subscriptions due	1200	980
ii. Unpresented cheques being payment on printing	90	30
iii. Club premises at cost	29000	
iv. Depreciation on club premises	18800	-
v. Car at cost	12190	-
vi. Depreciation on car	10290	-
vii. Value of Bar stock	710	870
viii. Amount due for Bar purchases	590	430
ix. Cash overspent represents amount of honorarium to the treasurer not drawn due to shortage of funds. But the total salary payable to him for the year was already included in shs.4800.		
x. Depreciation is to be provided @5% p.a. on the written down value of the club premises and at 15 per cent p.a. on car for the whole year.		

**Required:**

- i) An income and expenditure account of the club for the year ending 31<sup>st</sup> March 2005. **(10 marks)**
- ii) A Balance sheet as at 31<sup>st</sup> 2005. **(5 marks)**
- (Total 20 marks)**

**QUESTION THREE**

a) Explain the following terms:

- i) Share premium **(2 marks)**
- ii) Rights issue **(2 marks)**

b) The Safaricom Limited has an authorized capital of Sh.500, 000 divided into 5,000 ordinary shares of Sh. 100 each. On 1 January 2011, the Board of directors decided to issue 4,000 shares at Sh.125 each payable as:

- On application Sh.50.
- On allotment (including the Sh.25 premium) Sh.50
- On first and final call Sh.25.

The applications were receivable on 20 January 2001 when allotment was made. The allotment money was receivable by 15 February 2011. The first and final call was made on 15 March 2011 and the call money receivable by 31 March 2011.

Applications were received for 6,000 shares. The directors decided to refund money for 1,000 shares and the other applicants were allotted on 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.



### Current accounts

Anita shs 11,400 credit

Brian shs 4,800 credit

Clive shs 4,600 debit

Capital accounts remained unchanged throughout the year.

- v. On 31 December 2011 Helen was admitted into the partnership. She paid \$90,000 cash into the partnership bank account on that date.
- vi. The old partners shared profits in the ratio of 5:3:2. The new partners shared profits in the ratio 4:3:3:2.
- vii. Goodwill of shs 120,000 is to be shared between the partners but not recorded on the partnerships statement of financial position.
- viii. Land and buildings are to be revalued upwards by \$80,000 as at 31 December 2011, which will remain in the partnership's statement of financial affairs.
- ix. Brian had also loaned the partnership \$20,000 at an interest rate of 10% per annum. This interest has not yet been accounted for as at 31 December 2011.

### Required: Prepare:

- i) The appropriation account for the partnership for the year ended 31 December 2011. **(4 marks)**
  - ii) The partners' current accounts for the year ended 31 December 2011. **(3 marks)**
  - iii) The partners' capital accounts for the year ended 31 December 2011. **(3 marks)**
  - iv) The Balance Sheet as at 31<sup>st</sup> December, 2011 **(6 marks)**
- (Total 30 marks)**

### QUESTION TWO

- a) State and briefly explain the distinguishing features between Receipts and payments account and Income and Expenditure account. **(5 marks)**
- b) The following is the Receipts and Payments Account of the Thika golf Club for the year ended 31<sup>st</sup> March 2005.

Receipts	Shs.	Payments	Shs.
Opening balance		Honoraria to secretary	4800
Cash in hand	150	Rates and taxes	1260
Bank balance	8230	Printing and stationery	470
Subscriptions	10710	miscellaneous Expenses	1530
Receipts from fetes	2400	Ground man's wages	840
Proceeds from Entertainment	4270	Expenditure on fetes	2390
Bank interest received	230	Bar purchases Payment	5770
		Repairs	320
		New car (less sale of old car shs.3000)	12600
		Closing Bank balance	<u>3480</u>
Cash overspent	<u>20</u>		

**Additional information**

- i. Discount allowed shs.600
- ii. Discount earned shs.500
- iii. Bad debts written off shs.400
- iv. Depreciation on machinery at 15% p.a. and on furniture at 5% p.a.
- v. Wages outstanding shs.1500
- vi. Expenses include insurance premium shs.600 paid for the year ending 31<sup>st</sup> March 2008.

Required:

- i. Trading and Profit and Loss Account for the year ended 31<sup>st</sup> December 2007. **(10 marks)**
  - ii. Balance sheet as on that date **(5 marks)**
- (Total 20 marks)**

**QUESTION FIVE**

Write short notes to distinguish the following:

- a) Purchased goodwill and non-purchased goodwill. **(5 marks)**
  - b) Amortization and depreciation of fixed assets **(5 marks)**
  - c) "Qualitative characteristics are the attributes that make information provided in financial statements useful to users." Briefly explain the four main qualitative characteristics of financial statements with reference to shareholders of a company. **(6 marks)**
  - d) Briefly explain why goodwill should be paid under the following circumstances:
    - i. By a partner on admission to a partnership. **(2 marks)**
    - ii. To a partner on retirement from a partnership. **(2 marks)**
- (Total 20 marks)**

\*\*\*\*\*END\*\*\*\*\*



The first and final call was made and the call money received on the due date except for allottees of 200 shares. The 200 shares with calls arrears were forfeited on 10 April 2011 and sold for cash at Sh.85 each on 12 April 2011.

**Note:** No other transactions took place during the above period.

**Required: Prepare the following accounts**

- |       |                                   |           |
|-------|-----------------------------------|-----------|
| i)    | Application and Allotment Account | (2 marks) |
| ii)   | First and Final Call Account      | (2 marks) |
| iii)  | Ordinary Share Capital Account.   | (2 marks) |
| iv)   | Share Premium Account             | (2 marks) |
| v)    | Calls in Arrears Account          | (2 marks) |
| vi)   | Forfeited Shares Account          | (2 marks) |
| vii)  | Bank account.                     | (2 marks) |
| viii) | Balance sheet as at 12 April 2011 | (2 marks) |

**(Total 20 marks)**

#### QUESTION FOUR

a) Write short notes on the following terms as used in accounting

- i. Accrual concept
- ii. Prudence concept
- iii. Going concern concept
- iv. Substance over form concept
- v. Materiality concept.

**(5 marks)**

b) Roselyne keeps her books on single entry basis, she gives you the following information:

	1-1-07	31-12-07
	<u>Shs.</u>	<u>Shs.</u>
Debtors	16000	20000
Stock	15000	22000
Machinery	25000	-
Furniture	4000	-
Creditors	10000	12000

Summary of cash transactions for 2007

<u>Receipts</u>	<u>Shs.</u>	<u>Payments</u>	<u>Shs.</u>
Opening balance	1000	Wages	9000
Cash sales	26000	Salary	6000
Received from debtors	60000	Expenses	4000
Miscellaneous Receipts	200	Drawings	8000
Loan from x (at 10% on July 1)	10000	Payments to creditors	45000
		Cash purchases	15000
		Machinery purchased	5000
		(July 1 <sup>st</sup> )	
		Closing balance	5200
	<u>97200</u>		<u>97200</u>