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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
BUSINESS ADMINISTRATION**

**Date: 7th August, 2019
Time: 9.00am – 11.00am**

KAC 101 - PRINCIPLES OF ACCOUNTING II

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Discuss the procedure of dissolving a partnership. **(6 marks)**

b) Black and white who share profits & Losses equally decide to dissolve their partnership as at 31st December 1998.

The balance sheet on that date was as follows.

Balance sheet as at 231st December 1998

Capital accounts	shs	shs
Black	12000	
White	8000	20000
Current Accounts		
Black	1500	
White	800	2300
Current Liabilities		
creditors		<u>5700</u>
		<u>28000</u>
Fixed assets		
Plant and machinery	10000	

Motor vehicle	<u>5000</u>	15000
Current assets		
Stock	4500	
Debtors	5300	
Cash at Bank	<u>3200</u>	<u>13000</u>
		<u>28000</u>

The debtors realized sh 5000, plant and machinery sh 8000. Motor vehicles 5500 and stock 3800. The expenses of dissolution were 200 and discount received from creditors sh300.

Required

- i)** Prepare realization accounts. **(4 Marks)**
- ii)** Partners capital account. **(4 Marks)**
- iii)** Bank account. **(4 Marks)**

c) Chura Ltd issued 10,000 debentures of shs 100 each at sh 95 on October 1996.

Required

- Show the relevant entries in the ledger accounts **(6 Marks)**
- d) Outline differences between debenture Loan and share capital. **(6 Marks)**

QUESTION TWO (20 MARKS)

a) Electric Ltd. Is an expanding private company in the electric trade? Accounts prepared in January 2006 included the following information

Profit statement for the year ended 31st December

	2005
	<u>Shs (000s)</u>
Sales	2,000
Less cost of goods sold	<u>1,100</u>
Gross profit	900
Less: Trading expenses	<u>450</u>
Trading profit	450
Less: Debenture interest	<u>25</u>
Net profit before taxation	425
Less: Corporation Tax	<u>160</u>
Net profit after taxation	265
Less: Ordinary share dividend	<u>125</u>
Undistributed profit for year	<u>140</u>

Statement of financial position as at 31st December 2005.

Source of capital	shs	uses of capital	shs
Ordinary share		fixed assets at Cost	1000
Capital authorized & issue(shs 1 share)	500	less depreciation	<u>200</u>
Undistributed profit	350		800
10% Debentures	250	Current assets	
		Stocks	400
		Debtors	250
		Cash	<u>80</u>
			730
		Less current liabilities	
		Creditors	145
		Taxation	160
		Proposed dividends	125
		Bank overdraft	<u>(430)</u>
			<u>1100</u>
			<u><u>1100</u></u>

Required

- i) Calculate SIX accounting ratios for the year 2005 which you feel would be of particular value in assessing the profitability and liquidity performance of electric ltd. **(10 marks)**
 - ii) Comment on the current position of electric ltd using the accounting ratios calculated above. **(5 marks)**
- b). Discuss reasons why buyers are willing to pay good will for a going concern business entity **(5marks)**

QUESTION THREE (20 MARKS)

- a). Macho ltd company commenced business on 1 January 2017 and the following trial balance was extracted as at 31 December 2017.

	Kshs	Shs
Share capital 300000shs at sh 1 each		300,000
8% Debentures repayable 30 June 2018		100,000
105 unsecured Loan		20,000
Fixed assets at cost	480,000	
Gross profit		152,000
Trade debtors	615,000	
Trade creditors		37,870
Bank Balance	7,400	
Bad debts written off	320	
Administration & Selling expenses	63,200	
Interest paid 30 June 2017	5,000	
Interim dividend paid	12,000	
Stock, 31 December 2017	60,450	
	<u>689,871</u>	<u>689,870</u>

Additional Information

- 1) A provision for doubtful debts is to be made of 2% on outstanding trade debtors
- 2) Depreciation is to be charged on fixed assets at the rate of 4% on cost
- 3) The directors purpose to recommend a final dividend of 5%
- 4) Corporation tax of shs 18000 is to be made on the profit for 2017
- 5) A transfer of sh 10,000 is to be made to the dividend equalization reserve

Required

- i. Income statement for the year ended 31/12/17. **(8 Marks)**
 - ii. A statement of financial position as at 31/12/17. **(8Marks)**
- b) Outline four limitations of ration analysis . **(4 marks)**

QUESTION FOUR (20 MARKS)

- a) The following information rates to the to both end ltd for the year ended 31st December 2008.

	Sh (000)	Shs (000)
Cash and cash equivalent:		
Jan 2008		8952
Dec 2008		10043
Operating profit	4100	
Depreciation charges	1080	
Proceeds of sale of tangible assets be valve 116,00	96	
Increase in working capital	165	
Issuance of ordinary share capital	400	
Expenses in correction with shares	10	
Purchase of intangible fixed assets	150	
Purchase of tangible fixed assets	2540	
Cooperation tax paid	2460	
Dividends paid	1570	
Interest	2290	

Required

- Prepare a cash flow for the year ended 31/12/2008 **(10 Marks)**
- b) Write short notes on the following
- i) Bonus issue. **(2 marks)**
 - ii) Right issue. **(2 marks)**
 - iii) Over subscription. **(2 marks)**
 - iv) Under subscription. **(2 marks)**
 - v) Redemption of shares. **(2 marks)**

QUESTION FIVE (20 MARKS)

a) From the following Receipts and Payments account of Parkland Hospital, prepare the Income and Expenditure Account for the year ending 31st December 1996 and Balance Sheet as on that date: **(12 marks)**

Receipts and Payments Account

For the Year Ending 31st December 1996

Receipts	Shs	Payments	Shs
Balance b/f	71,300	Medicines	450,000
Subscription & fees	479,960	Doctor's	120,000
		Honorarium	
Donations	245,000	Salaries	350,000
Interest on investment @ 15 %	75,000	Miscellaneous exp	12,000
	250,000	Equipment's	150,000
		Expenses on charity show	15,000
		Balance c/d	<u>24,260</u>
	<u>1,121,260</u>		<u>1,121,260</u>

Additional Information

	<u>1st January</u> <u>1996</u> Sh	<u>31st December</u> <u>1996</u> sh
Subscription due	24,000	28,000
Subscriptions in advance	6,400	10,000
Stock of medicines	89,000	97,500
Equipment	212,000	316,000
Buildings (cost less depreciation)	400,000	380,000

b) Outline differences between a partnership and a public limited company. **(8 Marks)**