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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 9th August, 2023

Time: 11.30am – 1.30pm

KAC 101 - PRINCIPLES OF ACCOUNTING 11

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain reasons why companies do not distribute all their profits to the shareholders. (5 Marks)
- b) XYZ are in partnership sharing profits and losses in the ratio of 3:2:1. The following is their statement of financial position as 31st December 2022

STATEMENT OF FINANCIAL POSITUON AS AT 31ST DECEMBER 2022

Capital Accounts:

Shs.	Shs.	
X	12,000	
Y	8,000	
Z	4,000	24,000

Fixed Assets

Shs.	Shs.	
Premises	15,000	
Motor vehicles	3,800	
Furniture & Fittings	1,200	20,000

Current Accounts:

Shs.	
X	2,000
Y	1,800
Z	(2,800) 1,000

Current Assets

Shs.	
Stock	5,500
Debtors	3,700
Cash at bank	1,400
	10,600

Current Liabilities:

Creditors	5,600
	<u>30,000</u>

30,600

The partners decide to dissolve the partnership as at 1st January 2023. The premises and stock were sold for shs. 13,000. The debtors realized shs. 3,000. Motor vehicles and furniture and fittings were sold for shs. 2,500 and shs. 1,100 respectively. Z is declared insolvent.

Required

- i) Realization Account (5 Marks)
- ii) Partners capital Account (5 Marks)
- iii) Bank Account (5 Marks)

c) Nyota Ltd issued 10,000 debentures of shs.100 each at shs 90 on 1st January 2022.

Required

- Show relevant entries in ledger accounts (5Marks)
- d) Outline contents of partnership deed . (5 Marks)

QUESTION TWO (20 MARKS)

Maji Mazuri limited has authorized share capital of 50,000 ordinary shares of shs 10 each. The company's trial balance as at 31st October 2019 was as follows:-

	DR	CR
Ordinary shares		300,000
Share premium		80,000
Freehold premises	350,000	
Plant and machinery	230,000	
Motor vehicles	150,000	
Debtors and creditors	85,000	67,000
10% Debentures		100,000
Purchases and sales	285,000	428,000
General expenses	15,500	
Bad debts	4,300	
Stock on 1 st Nov. 2018	32,500	
Debenture interest (Half year)	5,000	
Discount received		4,200
Bank	47,800	
Salaries	45,000	
Directors salaries	20,000	
Insurance	4,000	
Provision for depreciation:- plant and machinery		175,000
Provision for depreciation:- motor vehicle		80,000
Income statement account(1 st Nov 2018)		40,000

Additional Information:

- 1) As at 31st October 2019:
 - i) Insurance prepaid was shs 600.
 - ii) Stock was valued at shs 34,300
 - iii) A corporation tax of shs 15,000 is to be made.
 - iv) The directors propose to pay a dividend of 10% to the ordinary shareholders.
- 2) Depreciation is to be calculated on fixed asset(plant and machinery and motor vehicle) at 20% on the reducing balance method.
- 3) The debenture interest for the second half of the year is to be accrued.

Required:

- i) Prepare an income statement for the year ended 31st October 2019.

- ii) Prepare a statement of financial position as at that date. (10 Marks)
- (10 Marks)

QUESTION THREE (20 MARKS)

- a) Kiriri Company Limited sells plumbing materials at Mwhoko town.. Its financial statements for the last three years are as follows:

	2020	2021	2022
	Sh.'000'	Sh.'000'	Sh.'000'
Cash	30,000	20,000	5,000
Accounts receivable	200,000	260,000	290,000
Inventory	400,000	480,000	600,000
Fixed assets	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Bank loan, short term	100,000	100,000	140,000
Long term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	<u>500,000</u>	<u>550,000</u>	<u>550,000</u>
	1,430,000	1,560,000	1,695,000
Additional information:			
Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

Required:

- a) For each of the three years, calculate the following ratios:
- i) Current ratio (3 Marks)
 - ii) Acid test ratio (3 Marks)
 - iii) Inventory turnover, (3 Marks)

- iv) Total debt/equity, (3 Marks)
v) Net profit margin (3 Marks)
b) Discuss limitations of ratio analysis (5Marks)

QUESTION FOUR (20 MARKS)

- a) Kamau and Njoroge are in partnership sharing profits and losses in the ratio 3:2 respectively after crediting their accounts with interest on capital at 10% p/a and monthly salaries of shs. 15,000 and 20,000 respectively. Interest on drawing is charged at 5% p.a. their trial balance as at 31/12/2013 after drawing Income statement is as follows.

	DR SHS	CR SHS
Capital		
Kamau		500,000
Njoroge		400,000
Current		
Kamau		20,000
Njoroge		10,000
Drawing		
Kamau	225,000	
Njoroge	215,000	
Net profit		800,000
Non-current Assets (cost)		
Land and buildings	500,000	
Plant and machinery	300,000	
Motor vehicle	200,000	
Accounts receivable	100,000	
Inventory	200,000	
Cash	290,000	
Accounts payable		<u>100,000</u>
	<u>2,030,000</u>	<u>2,030,000</u>

Required;

- i) Draw the profit and loss appropriation account. (6 Marks)
ii) The partners current accounts. (6 marks)
iii) The statement of financial position as at 31st December 2013. (4 marks)
iv) Highlight two differences between equity capital and loan/debenture capital. (4Marks)

QUESTION FIVE(20 MARKS)

- a) Explain the following terms as used in Non-profit making organizations
- i) Donations (2 Marks)
 - ii) Legacy (2 Marks)
 - iii) Honorarium (2 Marks)
- b) The Victory Sports Club had the following assets and liabilities on 31 December of the years shown.

	2019	2020
	Shs.	Shs.
Accumulated fund	50,000	48,000
Outstanding salaries	700	Nil
Refreshment Bill owing by club	Nil	400
Sport ground	25,000	X
Furniture	1,300	X
Sports kit (A fixed asset) at valuation	12,000	10,000
Uniforms (a fixed asset)	6,500	X
Subscription due from members	500	300

The following summary of the club's receipts and payments was prepared by its treasurer for 2020:

CASH SUMMARY

	SHS.		SHS.
Balance b/f	5,400	Salaries	6,200
Subscriptions	23,000	Traveling	7,800
Donations	2,100	Stationery & postage	600
Gate Moneys	6,500	Electricity and Telephone	500
Sale of old sports kit	1,000	Refreshments	5,200
		Purchase of new sport kit	4,000
		Purchase of new uniforms	3,800
		Repairs to sports kit	700
		Maintenance of sport ground	3,400
		Balance c/f	<u>5,800</u>
	<u>38,000</u>		<u>38,000</u>

Additional information:

- Sports ground was acquired several years ago on a 100 years lease for shs. 50,000.
- The old sports kit sold during the year had a book value of shs. 1,500.
- Write down furniture by shs. 300 and uniforms by shs. 3,500.

Required

- i) Club's income and Expenditure Account for 2020 (8 Marks)
- ii) Its Balance sheet as at 31 December 2020 (6 Marks)