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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: 6<sup>th</sup> December, 2019  
 Time: 11.00am – 1.00pm

**KAC 101 - PRINCIPLES OF ACCOUNTING II**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

- a) Discuss reasons why companies do not distribute all their profits to the shareholders. (6 Marks)
- b) Black and white who share profits & losses equally decide to dissolve their partnership as at 31<sup>st</sup> December 1998.  
 The balance sheet on that date was as follows

**Balance sheet as at 231<sup>st</sup> December 1998**

<b>Capital accounts</b>	shs	shs
Black	12000	
White	8000	20000
<b>Current Accounts</b>		
Black	1500	
White	800	2300
<b>Current Liabilities</b>		
creditors		<u>5700</u>
		<u>28000</u>
<b>Fixed assets</b>		
Plant and machinery	10000	
Motor vehicle	<u>5000</u>	15000
<b>Current assets</b>		
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 four limitations of ration analysis (6 Marks)

**QUESTION TWO ( 20 MARKS)**

- a) Nyota ltd. is an expanding private company inthe electric trade? accounts prepared in January 2006 included the following information

**Profit statement for the year ended 31<sup>st</sup> December 2005**

**shs (000s)**

Sales	2,000
Less cost of goods sold	1,100
Gross profit	900
Less. Trading expenses	450
Trading profit	450
Less; debenture interest	25
Net profit before taxation	425
Less: corporation tax	160
 Net profit after taxation	 265
Less: ordinary share dividend	<u>125</u>
Undistributed profit for year	<u><b>140</b></u>

**Statement of financial position as at 31<sup>st</sup> December 2005**

<b>Source of capitalshuses of capital</b>		<b>shs</b>	
Ordinary share		fixed assets at cost	1000
Capital authorized & issue (sh 1 share)500		less depreciation	200
Undistributed profit	350		800
10% debentures		250	<b>current assets</b>
Stocks	400		
Debtors	250		
Cash	80		

**Less current liabilities**

Creditors	145
Taxation	160
Proposed dividends	125
Bank overdraft	(430)

**11001100**

- i) **Required**  
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 the procedure of resolving a partnership (5 Marks)

**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.

	<b>Kshs</b>	<b>Shs</b>
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	
	<b><u>689,871</u></b>	<b><u>689,870</u></b>

**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 (7 Marks)
- ii) A statement of financial position as at 31/12/17 (7 Marks)
- b) Outline the difference between debenture loan and share capital (6 Marks)

**QUESTION FOUR ( 20 MMARKS)**

- 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**

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	15,000
		show	
		Balance c/d	24,260
	<u>1,121,260</u>		<u>1,121,260</u>
Additional Information			
	1 <sup>st</sup> January	31 <sup>st</sup> December	
	<u>1996</u>	<u>1996</u>	
	Sh	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	

**For the Year Ending 31<sup>st</sup> December 1996**

- b) Discuss lessons why people are willing to pay goodwill for an already existing business. (8 Marks)

**QUESTION FIVE ( 20 MARKS)**

- a) The following information relates to South End Ltd for the year ended 31<sup>st</sup>Dec 2008
- |  |            |
|--|------------|
| Cash and cash equivalents                              | <u>000</u> |
| Jan 2008   | 8,952      |
| Dec 2008   | 10,043     |
| Operating profit                                       | 4,100      |
| Depreciation charges                                   | 1,080      |
| Proceeds of sale of tangible assets book value 116,000 | 96         |
| Increase in working capital                            | 165        |
| Issuance of ordinary share capital                     | 400        |
| Expenses in connection with share                      | 10         |
| Purchases of intangible fixed assets                   | 2540       |
| Purchases of tangible fixed assets                     | 2460       |
| Corporation tax paid                                   | 1570       |
| Interest received                                      | 2290       |

**Required**

Prepare a cash flow statement for the year ended 31<sup>st</sup>dec 2008

(10 Marks)

b) Explain 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) |