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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: 11th April, 2019
Time: 11.00am – 1pm**

KAC 101: PRINCIPLES OF ACCOUNTING II

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS
QUESTION ONE (30 MARKS)

QUESTION ONE (30 MARKS)

- a) State and briefly explain any three distinguishing features between
- i) a receipts and payments account (3 marks)
 - ii) Income and expenditure account (3 marks)
- b) Explain any four uses of a cash flow statement in an organization (8 marks)
- c) Differentiate between revenue reserves and capital reserves (4 marks)
- d) Explain the factors to consider in determining a depreciation method (6 marks)
- e) Differentiate between non –purchased goodwill and purchased goodwill and state the recommended accounting treatment (6 marks)

QUESTION TWO (20 MARKS)

Amis, Lodge and Pym were in partnership sharing profits and losses in the ratio 5:3:2. The following trial balance has been extracted from their books of accounts as at 31 March 2018:

	sh	sh
Capital accounts (as at 1 April 2017):		
Amis		80,000
Lodge		15,000
Pym		5,000
Carriage inwards	4,000	
Carriage outwards	12,000	
Cash at bank	4,900	
Current accounts:		
Amis		1,000
Lodge		500
Pym		400
Discount allowed	10,000	
Discount received		4,530
Drawings:		
Amis	25,000	
Lodge	22,000	
Pym	15,000	
Motor vehicles:	80,000	
Accumulated depreciation (at 1 April 2017)		20,000
Office expenses	30,400	
Plant and machinery: At cost	100,000	
Accumulated depreciation (at 1 April 2017)		36,000
Provision for bad and doubtful debts (at 1 April 2017)		420
Purchases	225,000	
Rent, rates, heat and light	8,800	
Sales		404,500
Stock (at 1 April 2017)	30,000	
Trade creditors		16,500
Trade debtors	14,300	
	583,300	583,300

Additional information:

- i. Stock at 31 arch 2018 was valued at sh35,000.
- ii. Depreciation on the fixed assets is to be charged as follows:
 - a. Motor vehicles – 25% on the reduced balance
 - b. Plant and machinery – 25% on the original cost.There were no purchases or sales of fixed assets during the year to 31 March 2018.
- iii) The provision for bad and doubtful debts is to be maintained at a level equivalent to 5% of the total trade debtors as at 31 March 2018.

iv) An office expense of sh405 was owing at 31 March 2018, and some rent amounting to sh1,5000 had been paid in advance as at that date. These items had not been included in the list of balances shown in the trial balance.

v) Interest on drawings and on the debit balance on each partner's current account is to be charged as follows:

Sh.

Amis	1,000
Lodge	900
Pym	720

vi) According to the partnership agreement, Pym is allowed a salary of sh13,000 per annum. This amount was owing to Pym for the year to 31 March 2018, and needs to be accounted for.

vii) The partnership agreement also allows each partner interest on his capital account at a rate of 10% per annum. There were no movements on the respective partners' capital accounts during the year to 31 March 2018, and the interest had not been credited to them as at that date.

Required:

- a) Prepare the Partners trading, profit and loss account for the year ended 31 March 2018 (10 marks)
- b) The partners current accounts and a balance sheet as at 31 March 2018. (10 marks)

QUESTION THREE (20 MARKS)

The Following Trial Balance Was Extracted From The Books Global Ltd At 31 December 2015

	KSH	KSH
Share capital authorized and issued: 90,000 ordinary shares of SH1 each		90,000
Freehold premises at cost	59,000	
Motor vans Balance 1 January 2015 at cost	15,000	
Provisions for depreciation of motor vans to 31 December 2014		6,750
Stock in trade 31 December 2014	13,930	
Balance at bank	6,615	
Provision for doubtful debts 31 December 2014		275
Trade debtors and creditors	12,395	11,380
Directors' remuneration	4,000	
Wages and salaries	13,127	

Motor and delivery expenses	3,258	
Rates	700	
	108,440	
Purchases		132,770
Sales	1294	
Legal expenses	5,846	
General expenses		<u>2,430</u>
Profit and loss account: balance at 31 December 2014	<u>243,605</u>	<u>243,605</u>

You are given the following information.

- i. Stock in trade, 31 December 2015, 16,600.
- ii. An invoice for ksh 16,000 in relation to sewerage services had not been recorded
- iii. A provision of ksh 10,000 is to be made in relation to a court case in progress
- iv. Rates paid in advance, 31 December 2015, 160.
- v. Debts of 1,075 to be written off and the provision to be increased to 350.
- vi. On 1 January 2015, a motor van which had cost 680 was sold for 125.
- vii. Depreciation provided for this van up to 31 December 2014 was 475.
- viii. Provide for depreciation of motor vans at 20% of cost.

Required:

- a) Prepare an income statement (8 marks)
- b) Statement of financial position as at 31st Dec 2015 (8 marks)
- c) From the statements prepared analyze and comment on the company liquidity. (4 marks)

QUESTION FOUR (20 MARKS)

Kimeu commenced his business of making furniture on 1 April 2009. Due to his limited accounting knowledge he has not maintained proper books of account. You have been engaged to examine his records and prepare appropriate accounts therefrom. You perform an examination of the records and from interviews with Kimeu you ascertain the following information.

1. At the commencement of business on 1 April 2009 he deposited Sh 1,200,000 into business bank account. On the same day he brought into the firm his pickup and estimated that it was worth Sh 660,000 and then that from 1 April 2009 it will have a useful life of three years.
2. To increase his working capital he borrowed Sh 400,000 at 15% interest per annum on 1 July 2009 from his sister but no interest has yet been paid.
3. On 1 April 2009, Sally was employed as a clerk at a salary of Sh. 720,000 per annum.

4. He had drawn Sh 18,000 per week from the business account for private use during the year.
5. He purchased timber worth Sh 1,960,000 out of which Sh 158,000 worth of stock was retained in the workshop on 31 March 2010. He also spent Sh 960,000 on the purchase of some equipment at the commencement of the business which he estimates will last him five years.
6. Electricity bills received up to 31 January 2010 were Sh 240,000. Bills for the remaining two months were estimated to be Sh 48,000. Motor vehicle expenses were Sh 182,000 while general expenses amounted to Sh 270,000 for the year. Insurance premium for the year to 30 June 2010 was Sh 160,000. All these expenses have been paid by cheque.
7. Rates for the year to June 2010 were Sh 36,000 but these had not been paid.
8. Sally sent out invoices to customers for Sh 6, 178,000 but only Sh 5,080,000 had been received by 31 March 2010. Debt totaling to Sh 17,000 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh 726,000 in cash for work done of which Sh 560,000 was banked. Kimeu used Sh 75,000 of the difference to pay for his family's foodstuff, bought Kenya Charity Sweepstake tickets worth 24,000 and Sally used the rest on general expenses except for Sh 30,100 which was left in the office on 31 March 2010.
9. You agree with Kimeu that he will pay you Sh 55,000 for accountancy fee.

Required:

- a) Profit and loss account for the year ended 31 March 2010 (10 marks)
- b) Balance sheet as at 31 March 2010 (10 marks)

QUESTION FIVE (20 MARKS)

Mr Cheronno trades as a retailer of electric lamps and related products under the name of Chero Hardware. Most goods in which he trades are purchased from various suppliers in a finished form. In addition, a separate department of the firm manufactures various types of lampshades from purchased raw materials. When finished, the lampshades are transferred to the shop at an agreed transfer price for sale. No lampshades are sold other than through the shop.

The firm's Accounts Assistant presents you with the following trial balance at 30 June 2010:

	Sh	Sh
Capital account – Cheronno		740,000
Drawings – Cheronno	95,000	
Long term loan (interest at 15% p.a) 240,000		
Fixtures and fittings at cost	900,000	
Accumulated depreciation at 1 July 2009		350,000
Motor vehicle at cost	208,000	
Accumulated depreciation at 1 July 2009		60,000
Stock at 1 July 2009 (at cost):		
Raw materials for lampshades	40,000	
Completed lampshades	20,000	
Other goods	328,000	
Trade debtors and creditors 107,000	122,000	
Bank balance	98,000	
Sales 4,100,000		
Purchases – raw materials for lampshades	855,000	
- other goods	2,400,000	
Wages	254,000	
Rent and rates	96,000	
Water and electricity	47,000	
Motor expenses	60,800	
Repairs	12,000	
Interest on loan	18,000	
Bank charges	4,000	
Insurance	18,000	
Sundry expenses	<u>21,200</u>	
	5,597,000	
5,597,000		

Additional Information:

- i) Rent and rates include a prepayment of rates of Sh. 6,000.
- ii) The insurance includes a premium for the period ending 31 October 2010.
- iii) A trade debt of Sh. 14,000 is not expected to be realized.

iv) During the year a pick-up van, which was bought for Sh. 86,000, was sold for Sh. 30,000, and replaced with another pick-up van costing Sh. 152,000. Both transactions have been posted to the motor vehicle account. No disposal account has been opened. The straight-line rates of depreciation based on cost are 25% p.a. for motor vehicle and 10% p.a. for fixtures and fittings. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

v) Accruals at 30 June 2010 were:

Water and electricity Sh. 5,000

Sundry expenses Sh. 4,000

vi) Stocks at 30 June 2010 were:

Sh.

Lampshades raw materials 80,000

Lampshades (at transfer price) 30,000

Other goods at cost 252,000

a) The agreed transfer price for lampshades produced was Sh. 1,000,000. The workshop produced 50,000 lampshades during the year.

b) Wages include those of the lampshades making employee who has been paid Sh. 50,000 for the year. In addition, she is entitled to a commission on the annual profit of her department of 10% p.a. after charging such commission. Shop assistants' wages were Sh. 108,000.

c) The apportionment of rent and rates; and water and electricity to the lampshades is 25% of the total.

Required:

a) Prepare a manufacturing, trading and profit and loss accounts for the year ended 30 June 2010, disclosing clearly (i) the profit earned by the lampshades-making department and (ii) the gross profit earned by the shop

(12 marks)

b) Prepare a statement of financial position as at 30 June 2010

(8 marks)