



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**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: 6<sup>th</sup> December, 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) Discuss the reasons why people are willing to pay goodwill when purchasing a going concern business. (5 Marks)
- b) Amani, Lundi and Musa who have been in partnership sharing profits and losses 3:2:1 respectively, have provided the following balance sheet

Non-current asset	Shs	Shs
Freehold property		1,220,000
machinery		160,000
Current Assets		<b>1,380,000</b>
Stock	450,000	
Debtors	750,000	
Cash at bank	800,000	
	<b>200,000</b>	
Less current liabilities		
Creditor	(1,200,000)	
		<b><u>800,000</u></b>
		<b><u>2,180,000</u></b>
Noncurrent Liability		
Loan		(100,000)
Financed by:		
Capital Accounts:		570,000
Amani		48000
Lundi		<u>250,000</u>
Musa		
		<b>1,300,000</b>

Current Account	350,000	
Amani	300,000	
Lundi	130,000	
Musa		
		<u>780000</u>
		<u>2,080,000</u>

The balance sheet was drawn on the day they dissolved their partnership.

1. The assets were sold and realized the following amounts

	Kshs
Freehold Property	1,340,000
Machinery	175,000
Stock in Trade	415,000
Debtor	720000

2. The partners incurred Kshs 35000 on realization.  
3. Only a part of machinery was sold. The balance was taken over by Amani at shs 22000  
4. The trade creditors agreed to take shs 7 for every 10 owed to them  
5. The loan was paid in full

Required;

Open the following accounts in the ledger

- i) The Realization account (6 Marks)  
ii) The bank account (5 Marks)  
iii) Partners' capital account (5 Marks)
- c) Explain reasons why companies do not distribute all their profits to the shareholders. (5 Marks)
- d) Discuss the features of incomplete records. (4 Marks)

### **QUESTION TWO (20 MARKS)**

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

	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>Sh.'000'</b>	<b>Sh.'000'</b>	<b>Sh.'000'</b>
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;**

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 (5 Marks)

**QUESTION THREE (20 MARKS)**

- a) The trail balance of Nango Ltd at June 2022 is as follows:

	Dr Shs.	Cr Shs.
Share capital: Authorized and issued		700,000
Stock as at 30 June 2022	410,000	
Debtors	361,780	
Creditors		155,427
10% debentures		200,000
Fixed asset replacement		50,000
General reserve		100,000
Profit and loss accounts at 30 <sup>th</sup> June 2022		74,960
Debtore interest	10,000	
Equipment at cost	480,500	
Motor vehicle at cost	390,000	
Bank	100,643	
Cash	7,350	
Purchases	140,000	
Sales		640,490
Return inwards	13964	
Carriage outwards	3700	
Wages and salaries	64,000	
Rent, rates and insurance	30,000	
Discount allowed	14,640	
Directors remuneration	32,000	
Provision for depreciation:		
Equipment		10200
Motor vehicles		<u>127,800</u>
	<u>2,058,877</u>	<u>2,058,877</u>

Additional information

- i) Stock on June 2023 was shs 460,310
- ii) The share capital consisted of 50,000 ordinary shares of shs 10 each and 20,000, 10 per cent preference shares of shs .10 each. The dividend on the preference shares was proposed to be paid as a dividend of 20 per cent on the ordinary shares.
- iii) Accrued rent shs. 6000, directors remunerations shs 20,500.
- iv) Debenture interest half year's interest owing.
- v) Depreciation on cost: Equipment 10%, motor vehicle 20%.
- vi) Transfer to reserves: shs. 12000 to general reserves and shs 30,000 to asset replacement reserve.

Required;

- i) Draw income statement for the year ended 30 June 2023 (10 Marks)
- ii) Statement of financial position as at that date. (10 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Use the information below to draw a profit and appropriation account for the year ended 31 December 2022. (10marks)
  - i) Net profit – shs 111,100.
  - ii) Interest charged on capital : Blair 3000, Short 2000 and Steel 1,500.
  - iii) Interest charged on drawings: Blair 400, Short 300 and Steel 200.
  - iv) Salaries to be credited: Short 20,000, Steel 25,000.
  - v) Profits to be shared: Blair 70%, Short 20% and Steel 10%.
  - vi) Current accounts balances b/d: Blair 18,600, Short 9,460 and Steel 8,200.
  - vii) Capital accounts: Balances b/d : Blair 100,000, Short 50,000 and Steel 25,000.
  - viii) Drawings: Blair 39,000, Short 27,100 and Steel 16,800.

(10 Marks)

- b) The following information relates to South End Ltd for the year ended 31<sup>st</sup> Dec 2020

Cash and cash equivalents	<u>000</u>
Jan 2020	8,952
Dec 2020	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> December 2020.

(10 Marks)

**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:**

- a) Sports ground was acquired several years ago on a 100 years lease for shs. 50,000.
- b) The old sports kit sold during the year had a book value of shs. 1,500.
- c) 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)