



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**
SECOND SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO 104

COURSE TITLE: PRINCIPLES OF ACCOUNTING II

EXAMINATION DURATION: 3 HOURS

DATE: 06/04/18

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has FIVE (5) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) questions from the remaining FOUR(4) questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of SEVEN (7) printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) A partnership is guided by the agreements by partners contained in a document called a partnership deed. However, in the absence of a partnership deed the provisions of the partnership Act shall apply. Outline any five provisions of this Act **[5 marks]**
- (b) Describe any five contents of memorandum of association **[5 marks]**
- (c) The accountant of Daima Sports Club has extracted the following information from the books of account for the year ended 31st December 2017.

Receipts and Payments

Receipts.shs.

Payments.shs.

Balance b/d	576,000	Salaries and wages	508,000
Subscriptions. Year: 2016	498,000	New equipment	1,130,000
: 2017	4,100,000	Repairs and maintenance	248,000
: 2018	388,000	Office expenses	830,000
Dinner dance	1,446,000	Printing and stationery	336,000
Beverage sales	1,314,000	Purchase of beverages	994,000
Investment income	800,000	Dinner dance expenses	630,000
		Refund of subscriptions	90,000
		Sports prizes	50,000
		Transport	496,000
		Investments	3,000,000
		Balance c/d	810,000
	9,122,000		9,122,000



Additional information

1. Balances were as follows

	31st December 2016	31st December 2017
Furniture and fittings (net)	480,000	-
Equipment (net)	1,380,000	-
Investment at cost	7,000,000	-
Subscriptions in arrears	600,000	750,000
Salaries accrued	136,000	144,000
Stock of beverages	324,000	368,000
Subscription in advance	170,000	-

2. Subscriptions in arrears are written-off after twelve months.

3. Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively.

4. Investments, which had cost Sh. 1,000,000, were sold on 30th December 2017 for an amount of shs. 1,250,000. No entries have been made in the books in this respect.

Required:

- i. Income and expenditure account for the year ended 31st December 2017 **[8 marks]**
- ii. Statement of financial position as at that date **[7 marks]**

QUESTION TWO

Peter, Quled and Rama are in partnership sharing profits in the ratio 2:2:1 respectively. Peter dies on 31st March 2018 and the partnership deed provides that:-

- i. The share of profit for the deceased up to date of death will be calculated on the basis of the average profits of the three preceding years.
- ii. That the goodwill of the firm shall be taken at one year's purchase of the average profits of the preceding five years.
- iii. That the firms' freehold property shall be taken at an independent valuation.



The balance sheet of Peter Quled and Rama as at 31st December 2017 was as follows:-

Peter, Quled and Rama
Statement of financial position
As at 31st December 2017

ASSETS

Noncurrent Assets	Shs.	Shs.
Freehold property	4,500,000	
Goodwill	<u>750,000</u>	5,250,000
Current assets		
Inventory	2,100,000	
Debtors	1,800,000	
Bank	600,000	<u>4,500,000</u>
		<u>9,750,000</u>
Financed by		
Capital: Peter	3,000,000	
: Quled	2,250,000	
: Rama	2,250,000	7,500,000
Liabilities		
Creditors		<u>2,250,000</u>
		<u>9,750,000</u>

Freehold property was valued at Shs 6,750,000

The profits for the last five years were as follows:-

	Shs
2013	900,000
2014	1,050,000



Ser. No. BBM 193/18	
2015	1,200,000
2016	1,500,000
2017	1,350,000

Required:

- (i) Journal entries to make the necessary entries
- (ii) Capital accounts of the partners.
- (iii) Statement of financial position of Quled and Rama as at 31st March 2018

QUESTIONTHREE

Rahole Ltd has authorized share capital of 900,000 ordinary shares of shs.10 each. The directors decided to issue additional 600,000 ordinary shares of shs. 12 each. The amounts were to be received in installments as follows:

shs.

Application	3
Allotment (including premium)	4
First call	3
Second call	2

Applications were received for 700,000 shares. The directors decided to refund money in respect of 20,000 applications and the rest were given 15 shares for every 17 subscribed for. The excess amount was used to reduce the allotment monies. All monies were received in respect of allotment. Calls were made at different times and all monies received as required.

Required

- i. Ledger accounts to record the above transactions

[15 marks]



QUESTION FOUR

The following is the statement of financial position of Halima and John as at 31st December 2017.

Statement of financial position

As at 31st Dec. 2017

ASSETS	Shs	Shs
Non-Current Assets		
Plant and Machinery		1,400,000
Furniture		600,000
Motor Vehicles		150,000
Investments		<u>350,000</u>
		2,500,000
Current Assets		
Inventory	250,000	
Debtors	125,000	
Bank	<u>75,000</u>	<u>450,000</u>
Total Assets		<u>2,950,000</u>
Financed by		
Capital: Halima	1,000,000	
: John	<u>750,000</u>	1,750,000
Current A/C: Halima	300,000	
: John	(75,000)	<u>225,000</u>
		1,975,000
Loan		750,000
Creditors		<u>225,000</u>
		<u>2,950,000</u>

The partnership was dissolved on the same date.



Additional information:

- (a) Halima agreed to take furniture at the value of shs 125,000. She also agreed to settle the loan owing.
- (b) The other assets were realised as follows:-
- | Assets | Amount |
|---------------------|---------------|
| Plant and machinery | 1,300,000 |
| Motor vehicles | 650,000 |
| Investments | 400,000 |
| Inventory | 225,000 |
| Debtors | 110,000 |
- (c) The expenses of realisation amounted to shs. 10,000.
- (d) The creditors agreed to accept shs 210,000
- (e) The profit and loss sharing ratios of Halima and John were 3:2 respectively.

Required:

- i. Realization account [6 marks]
- ii. Partner's capital [5 marks]
- iii. Bank account [4 marks]

QUESTION FIVE

- (a) Outline five differences between debentures and shares [5 marks]
- (b) Discuss the rule in Garner versus Murray [5 marks]
- (c) Describe five sources of income for Not for profit organizations [5 marks]

