



## **GARISSA UNIVERSITY COLLEGE**

*(A Constituent College of Moi University)*

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR ONE  
SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 116**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING II**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 27/05/17**

**TIME: 09.00-12.00 PM**

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### **INSTRUCTION TO CANDIDATES**

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) 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 SIX (6) printed pages**

*please turn over*



## QUESTION ONE (COMPULSORY)

- (a) Abdi operates a wholesale business as a sole proprietor. She considers converting it to a limited company. She approaches you for advice on the process of registration of a company. Briefly describe to her four documents needed for registration of a limited company. [5 marks]
- (b) Describe five sources of income for Not for profit organizations [5 marks]
- (c) The following is the statement of financial position of Hassan and Joyce as at 31<sup>st</sup> December 2016.

### Statement of financial position As at 31<sup>st</sup> Dec. 2016

ASSETS	Shs	Shs
<b>Non-Current Assets</b>		
Plant and Machinery		700,000
Furniture		300,000
Motor Vehicles		75,000
Investments		<u>175,000</u>
		1,250,000
<b>Current Assets</b>		
Inventory	125,000	
Debtors	62,500	
Bank	<u>37,500</u>	<u>225,000</u>
<b>Total Assets</b>		<b><u>1,475,000</u></b>
<b>Financed by</b>		
Capital: Hassan	500,000	
: Joyce	<u>375,000</u>	875,000
Current A/C: Hassan	150,000	
: Joyce	<u>(37,500)</u>	<u>112,500</u>
		987,500
Loan		375,000
Creditors		<u>112,500</u>
		<b><u>1,475,000</u></b>

The partnership was dissolved on the same date.

#### Additional information:

- i. Hassan agreed to take furniture at the value of shs 62,500. He also agreed to settle the loan owing.
- ii. The other assets were realised as follows:-

Assets	Amount
Plant and machinery	650,000
Motor vehicles	325,000
Investments	200,000
Inventory	112,500



Debtors 55,000

- iii. The expenses of realisation amounted to shs. 5,000.
- iv. The creditors agreed to accept shs 105,000
- v. The profit and loss sharing ratios of Hassan and Joyce was 3:2 respectively.

**Required:**

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

**QUESTION TWO**

Hola Ltd has authorized share capital of 1,800,000 ordinary shares of shs.20 each. The directors decided to issue additional 1,200,000 ordinary shares of shs. 24 each. The amounts were to be received in installments as follows:

**shs.**

Application	6
Allotment (including premium)	8
First call	6
Second call	4

Applications were received for 1,400,000 shares. The directors decided to refund money in respect of 40,000 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. Journal entries after all the transactions [15 marks]

**QUESTION THREE**

Maka and Rhodah are partners sharing profits and losses in the ratio 3:2 respectively. Their statement of financial position as at 31<sup>st</sup> December 2015 was as under Maka and Rhodah



Statement of financial position  
As at 31st December 2015

Assets	Shs.	Shs.
<b>Non current assets</b>		
Land and buildings	525,000	
Plant and machinery	675,000	
Furniture and fittings	172,500	1,372,500
<b>Current assets</b>		
Inventory	285,000	
Accounts receivable	255,000	
Bank	225,000	765,000
<b>Total assets</b>		<b>2,137,500</b>
<b>Financed by</b>		
Capital: Maka	750,000	
: Rhodah	750,000	1,500,000
Reserves		450,000
Creditors		187,500
		<b>2,137,500</b>

On 1<sup>st</sup> January 2016 they admit Halima as their partner on the following terms:

- i. Halima to bring shs. 450,000 as capital and pay shs.150,000 as his share of goodwill. No goodwill account is to be maintained.



- ii. It was agreed to revalue certain assets before admitting John as under:
- |                        |         |
|------------------------|---------|
| Land and buildings     | 825,000 |
| Plant and machinery    | 600,000 |
| Furniture and fittings | 217,500 |
| Inventory              | 120,000 |
- iii. The new profit sharing ratio for Maka, Rhodah and Halima will be 2:2:1 respectively.

**Required:** Prepare the following accounts after the above adjustments

- i) Revaluation account **[5 marks]**
- iii) Statement of financial position after Halima's admission **[10 marks]**

#### QUESTION FOUR

The treasurer of Raya combined football club has prepared a receipts and payments account, but members have complained about the inadequacy of such an account. The treasurer has given you a copy of the receipts and payments accounts together with information on assets and liabilities at the beginning and end of the year 2016

#### Receipts and Payments

Receipts.shs.	Payments.shs.
Balance at bank 1 <sup>st</sup> Jan 2016	153,000
Entrance fees	63,000
Subscriptions: 2015	37,500
2016	457,500
2017	52,500
Bar Sales	7,840,500
Sale of investments	1,125,000
	Bar purchases 6,651,000
	Wages 624,000
	Rent 279,000
	Heating and lighting 192,000
	Postage and stationery 49,500
	Insurance 27,000
	General expenses 69,000
	Payments on account of new furniture 675,000
	Balance at bank, 31 December 2016 <u>1,162,500</u>
	<b><u>9,729,000</u></b>

The following additional information is availed:

i.

	31.12.2015	31.12.2016	
Bar Inventory at cost		408,000	472,500
Creditors for bar purchases		459,000	537,000



Rent due	27,000	54,000
Heating and Lighting expenses due	24,000	28,500
Subscriptions due	37,500	60,000

Insurance paid in advance	7,500	10,500
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- ii. On 31 December 2015, the club held investments which cost 750,000. During the year ended 31 December 2016, these were sold for 1,125,000.
- iii. Furniture was valued at 450,000 on 31 December 2015. On 1<sup>st</sup> July 2016, the club purchased additional furniture at a total cost of 780,000. Depreciation is at the rate of 10% per annum pro rata to time.
- iv. A third of the wages relate to the bar staff.

**Required:**

- a) Bar income statement **[5 marks]**
- b) Income and expenditure account for the year ended 31 December 2016 **[5 marks]**
- c) Statement of financial position as at that date **[5 marks]**

**QUESTION FIVE**

- (a) Distinguish between receipts and payments account and income and expenditure account. **[2 marks]**
- (b) A change in partnership may be occasioned by various reasons. Briefly describe any four such reasons that may lead to change in partnership. **[4 marks]**
- (c) Outline four principal distinctions between unlimited partnerships and limited companies **[4 marks]**
- (d) Briefly discuss the rule in Garner versus Murray **[5 marks]**

