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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 116**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING** II

**EXAMINATION DURATION: 2 HOURS**

**DATE: 11/12/2020 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) 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 FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Briefly define the following terms.
2. Goodwill **[1 mark]**
3. Partnership **[1 mark]**
4. Prospectus **[1 mark]**
5. State and explain the various characteristics of a partnership **[6 marks]**
6. Discuss the advantages and disadvantages of a partnership **[6 marks]**
7. Chan and lee were partners, sharing profits and losses in the ratio of 2:1. The following is the balance sheet of the partnership as 31st December 2010.

**Chan and Lee Balance sheet as at 31st December 2010**

**Assets Cost Depreciation NBV**

**Non-current asset** Sh. Sh. Sh.

Office equipment 75,000 35,000 40,000

Motor vehicle 54,000 29,000 25,000

129,000 64,000 65,000

**Current assets**

Inventory 21,000

Account receivables 24,000

Less: allowance of doubtful account [1,600] 22,400

Bank 10,600

54,000

**Less: Current liabilities**

Account payable [23,000] 31,000

Net current assets **96,000**

**Financed by:**

Capital: Chan 30,000

Lee 20,000 50,000

Current: Chan 26,000

Lee 20,000 46,000

**96,000**

On 1st January 2011, Chan and Lee dissolved the partnership on the following terms.

1. The Office equipment and inventory were sold for sh. 48,000 and sh. 27,000 respectively.
2. Receipt from debtors amounted to sh. 20,400.
3. The motor vehicles were taken by Lee at an agreed value of sh. 22,000 without paying cash for them.
4. Payment to creditors amounted to sh. 21,000 and discount received is sh. 2,000.
5. Dissolution cost amounted to sh. 2,600.

**Required**

1. Realisation account **[7 marks]**
2. Partners’ capital account **[4 marks]**
3. Bank account **[4 marks]**

**QUESTION TWO**

The treasurer of Amana 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 year 2018.

**Receipts and payment account**

Receipts Payments

|  |  |
| --- | --- |
| Sh.  Balance at bank 1st Jan 2018 153,000  Entrance fees 63,000  Subscriptions received 547,500  Bar sales 7,840,500  Sale of investment 1,125,000  **9,729,000** | Sh.  Bar purchases 6,651,000  Wages 624,000  Rent 279,000  Heating & lighting 192,000  Postage and stationary 49,500  Insurance 27,000  General expenses 69,000  Payment on account of  new furniture 675,000  Balance at Bank 31st Dec 2018 1,162,500  **9,729,000** |

The following additional information is availed.

1. 31.12.2017 31.12.2018

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

1. On 31st December 2017, the club held investments which cost sh. 750,000. During the year ended 31st December 2018, these were sold for sh.1, 125,000.
2. Furniture was valued at sh.450, 000 on 31st December 2017, on 1st July 2018 the club purchased additional furniture at a total cost of sh. 780,000. Depreciation is at the rate of 10% per annum prorata to time.
3. A third of the wages relate to Bar staff.
4. As at the end of the year subscriptions received in advance were sh.52, 500.

**Required**

1. Bar income statement **[5 marks]**
2. Income & expenditure account for the year ended 31st December 2018. **[7 marks]**
3. Statement of financial position as at that date **[8 marks]**

**QUESTION THREE**

Tom and Mary are partners sharing profits and losses in the ratio of 3:2 respectively. Their statement of financial position as at 31st December 2018 was as under.

**Tom and Mary statement of financial position as at 31st December 2018.**

**Assets** **Sh.** **Sh.**

**Non-current assets**

Land and buildings 525,000

Plant and machinery 675,000

Furniture and fittings 172,500 1,372,500

**Current assets**

Inventory 285,000

Accounts receivable 255,000

Bank 225,000 765,000

Total assets **2,137,500**

**Financed by:**

Capital accounts: Tom 750,000

Mary 750,000 1,500,000

Reserves 450,000

Creditors 187,500

**2,137,500**

On 1st January 2019 they admitted Rukia as their partner on the following terms.

1. Rukia to bring sh. 450,000 as capital and pay sh.150, 000 as his share of Goodwill. No Goodwill account is to be maintained.
2. It was agreed to revalue certain assets before admitting Rukia as under:

Land and buildings 825,000

Plant and machinery 600,000

Furniture and fitting 217,500

Inventory 120,000

1. The new profit sharing ratio for Tom, Mary and Rukia will be 2:2:1 respectively.

**Required**

1. Revaluation account **[6 marks**]
2. Partners capital account **[4 marks]**
3. Bank account **[3 marks]**
4. Statement of financial position after Salim’s admission. **[7 marks]**

**QUESTION FOUR**

Safana Company Limited decided to issue 12,000 shares of Sh.100 each  
payable at on: Sh.

Application 30

Allotment 40

First call 20

Second and final call 10

Applications were received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received except on 100 shares.

**Required**

1. Share application account **[4 marks]**
2. Share allotment account **[4 marks]**
3. First call account **[4 marks]**
4. Second and final call account **[4 marks]**
5. Bank account **[4 marks]**

**QUESTION FIVE**

1. Briefly explain why goodwill should be paid under the following circumstances:
2. By a partner on admission to a partnership. **[2 marks]**
3. To a partner on retirement from a partnership. **[2 marks]**
4. Briefly explain the main purpose of:
5. Charging depreciation on property, plant and equipment. **[3 marks]**
6. Revaluing assets such as land and buildings on dissolution of a partnership **[3 marks]**
7. Discuss the rule in Garner versus Muray case **[6 marks]**
8. Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders **[4 marks]**