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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: ECO 102**

**COURSE TITLE: INTRODUCTION TO FINANCIAL 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. Distinguish between receipts and payments account and income and expenditure account. **[2 marks]**
2. 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]**
3. Outline four principal distinctions between unlimited partnerships and limited companies **[4 marks]**
4. Mary and Ridhwan are partners sharing profits and losses in the ratio 3:2 respectively. Their statement of financial position as at 31st December 2018 was as under.

Mary and Ridhwan

Statement of financial position

As at31st December 2018

|  |  |  |
| --- | --- | --- |
| Assets | Shs. | Shs. |
| **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: Mary  : Rhidhwan | 750,000  750,000 | 1,500,000 |
| Reserves |  | 450,000 |
| Creditors |  | 187,500 |
|  |  | **2,137,500** |

On 1st January 2019 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 Mary, Rhidhwan and Halima will be 2:2:1 respectively.

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

* 1. Revaluation account **[10 marks]**
  2. Statement of financial position after Halima’s admission **[10 marks]**

**QUESTION TWO**

The treasurer of Madogo 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 2018

**Receipts and Payments**

**Receipts. shs. Payments. shs.**

|  |  |  |  |
| --- | --- | --- | --- |
| Balance at bank 1st Jan 2018 | 153,000 | Bar purchases | 6,651,000 |
| Entrance fees | 63,000 | Wages | 624,000 |
| Subscriptions: 2017 | 37,500 | Rent | 279,000 |
| 2018 | 457,500 | Heating and lighting | 192,000 |
| 2019 | 52,500 | Postage and stationery | 49,500 |
| Bar Sales | 7,840,500 | Insurance | 27,000 |
| Sale of investments | 1,125,000 | General expenses | 69,000 |
|  |  | Payments on account of new furniture | 675,000 |
|  |  | Balance at bank,  31 December 2016 | 1,162,500 |
|  | **9,729,000** |  | **9,729,000** |

The following additional information is availed:



**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 31 December 2017, the club held investments which cost 750,000. During the year ended 31 December 2018, these were sold for 1,125,000.
2. Furniture was valued at 450,000 on 31 December 2017. On 1st July 2018, 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.
3. A third of the wages relate to the bar staff.

**Required:**

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

**QUESTION THREE**

The following is the statement of financial position of Hassan and Joyce as at 31st December 2018.

**Statement of financial position**

**As at 31st Dec. 2018**

**ASSETS Shs Shs**

**Non-Current Assets**

Plant and Machinery 700,000

Furniture 300,000

Motor Vehicles 75,000

Investments 175,000

1,250,000

**Current Assets**

Inventory 125,000

Debtors 62,500

Bank 37,500 225,000

**Total Assets 1,475,000**

**Financed by**

Capital: Hassan 500,000

: Joyce 375,000 875,000

Current A/C: Hassan 150,000

: Joyce (37,500) 112,500

987,500

Loan 375,000

Creditors 112,500 **1,475,000**

The partnership was dissolved on the same date.

**Additional information:**

1. Hassan agreed to take furniture at the value of shs 62,500. He also agreed to settle the loan owing.
2. 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

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

**Required:**

1. Realisation account **[9 marks]**
2. Partners capital. **[7 marks]**
3. Bank account **[4 marks]**

**QUESTION FOUR**

Daima 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**:

1. Journal entries after all the transactions **[20 marks]**

**QUESTION FIVE**

1. Fahim 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. Explain to her four documents needed for registration of a limited company. **[8 marks]**
2. Describe five sources of income for Not for profit organisations **[5 marks]**
3. Briefly discuss the rule in Garner versus Murray  **[7 marks]**