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MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 103**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING II**

**DATE: 25TH APRIL 2017 TIME: 8.30AM-10.30AM**

**INSTRUCTIONS TO CANDIDATES**

* **Answer question ONE (compulsory) and any other THREE**
* **Question one carries 25 marks**
* **All other questions carry 15 marks**

 This paper consists of 7 printed pages. Please turn over

**QUESTION ONE**

1. Discuss three items contained in the partnership agreement **(8marks)**
2. Discuss the 3 disadvantages of a limited company **(6marks)**
3. The following is the receipts and payments account of the Friendship Club for the year ended 31 December 19X1:

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ |  | £ |
| Balance at bank |  |  |  |
| 31 December 19X0 | 102 | Bar purchases | 4,434 |
| Entrance fees | 42 | Wages | 416 |
| Subscriptions: 19X0 | 25 | Rent | 186 |
|  19X1 | 305 | Heating and lighting | 128 |
|  19X2 | 35 | Postage and stationery | 33 |
| Bar Sales | 5,227 | Insurance | 18 |
| Sale of investments | 750 | General expenses | 46 |
|  |  | Payments on account of new furniture | 450 |
|  | \_\_\_\_\_ | Balance at bank, 31 December 19X1 | 775 |
|  | 6,486 |  | 6,486 |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |

The following information is also supplied:

|  |  |  |
| --- | --- | --- |
| (1) | 31 December 19X0 | 31 December 19X1 |
| Bar stock, at cost | 272 | 315 |
| Creditors for bar purchases | 306 | 358 |
| Rent due | 18 | 36 |
| Heating and lighting expenses due | 16 | 19 |
| Subscriptions due | 25 | 40 |
| Insurance paid in advance | 5 | 7 |

1. On 31 December 19X0, the club held investments which cost £500. During the year ended 31 December 19X1, these were sold for £750.
2. Furniture was valued at £300 on 31 December 19X0. On June 19X1, the club purchased additional furniture at a cost of £520. Depreciation of all furniture is to be provided for at the rate of 10% per annum.

**Required:**

1. Prepare an income and expenditure account for the year ended 31 December 19X1 **(6marks)**
2. Prepare a balance sheet at that date. **(5marks)**

**QUESTION TWO**

Bibi Maridadi owns and manages a small manufacturing business. The following balances have been extracted from her books of account at 31 January 1986:

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
|  | Sh | Sh |
| Capital at 1 February 1985 |  | 171,120 |
| Accounts payable |  | 86,000 |
| Bank and cash balance | 5,400 |  |
| Accounts receivable | 92,000 |  |
| Drawings | 60,000 |  |
| Administration expenses | 150,360 |  |
| Advertising expenses | 12,000 |  |
| Factory direct wages | 60,000 |  |
| Factory indirect wages | 24,000 |  |
| Factory power | 36,000 |  |
| Furniture and fittings (all offices) | 18,400 |  |
| Heat and light | 16,000 |  |
| Plant and equipment | 276,800 |  |
| Motor vehicle (used by salesmen) | 144,000 |  |
| Plant hire | 4,000 |  |
| Provision for bad debts |  | 3,200 |
| Provision for depreciation 1 February 1985: |  |  |
| * Furniture and fittings
 |  | 9,200 |
| * Plant and equipment
 |  | 138,400 |
| * Motor vehicle
 |  | 24,000 |
| Raw material purchases | 228,000 |  |
| Rent rates | 20,000 |  |
| Sales |  | 829,440 |
| Selling and distribution expenses | 66,400 |  |
| Inventories at cost, 1 February 1985: |  |  |
| * Raw materials
 | 8,000 |  |
| * Work in progress
 | 16,000 |  |
| * Finished goods
 | 24,000 | \_\_\_\_\_\_\_ |
|  | 1,261,360 | 1,261,360 |

The following additional information is provided:

1. Accruals at 31 January 1986 were:

Factory power - Sh.1,600

Rent and rates - Sh. 4,000

 There was also prepayment of Sh. 800 for salesmen’s motor vehicle insurance.

1. Inventories at 31 January 1986, were valued at cost as follows:

Raw materials - Sh. 15,200

Work in progress - Sh. 30,400

Finished goods - Sh. 45,600

1. Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.
2. Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.
3. The provision for bad debts is to be made equal to 5% of accounts receivable at 31 January 1986.

**Required:**

Prepare Bibi Maridadi’s manufacturing, income statement for the year ended 31 January **(15marks)**

**QUESTION THREE**

Kefa and Mark are partners sharing profits and losses equally. They do not maintain proper books of accounts. The following information has been obtained from the available records on 31 March:

1. 1997

 Sh. Sh.

Balance at bank 94,800 169,680

Stock in trade 541,200 488,640

Trade debtors 612,000 ?

Trade creditors ? 305,760

Furniture 360,000

Motor vehicles (book value) 1,920,000

Total sales during the year ended 31 March 1997 amounted to Sh.3,849,120 while purchases, all on credit for the same period were Sh.2,952,480. On 31 March 1996 Kefa’s capital was Sh.200,000 less than that of Mark. The analysis of the cash book for the year ended 31 March 1997 shows the following:

**Receipts:**

 Cash from credit sales 3,491,520

 Additional capital by Kefa 240,000

 Cash sales 586,800

**Payments:**

 For purchases 3,070,080

 Salaries paid 420,000

 Rent paid (for 6 months to 30.9.96) 144,000

 Rates paid (for 6 months to 30.6.97) 120,000

 Electricity charges 60,000

 Advertising 41,760

 Motor vehicle expenses 119,520

 Sundry expenses 33,600

 Drawings - Kefa 132,480

 Mark 102,000

On 31 March 1997 liabilities were as follows:

 Sh.

Electricity charges 12,480

Advertisement 6,240

Sundry expenses 3,600

On 20 March 1997 the firm decided to dispose of two of its motor vehicles. One vehicle was sold on credit for Sh.640, 000 while the other was taken over by Kefa at a valuation of sh.250, 000. the combined book value of the two vehicles was Sh.660,000. the transaction has not been recorded in the books.

Depreciation at the rate of 10 percent is to be provided on furniture and motor vehicles on hand at 31 March 1997. No depreciation is to be provided for the vehicles, which were disposed of.

**Required:**

1. Trading, profit and loss account for the year ended 31 March 1997. **(9 marks)**
2. Balance sheet as at 31 March 1997. **(6marks)**

**QUESTION FOUR**

Radhi Tea Company Limited has an authorized share capital of Sh. 10,000,000 ordinary shares of Sh.10 each. The shares were issued at par as follows:

Payable on application Sh.1.00

Payable on allotment Sh.3.00

Payable on first call Sh.4.00

Payable on second call Sh.2.00

Applications were received for 1,630,000 shares.

It was decide to refund applicants monies on 130,000 shares and to allot all the shares on the basis of two for every three applied for.

The excess application monies received from the successful applicants is not to be refunded but is to be applied to reduce the amount payable on allotment.

The calls were made and paid in full with the exception of one member of one member holding 5,000 shares who paid neither the first nor the second call and another member who did not pay the second call on 1,000 shares. After requisite action by the directors the shares were forfeited. They were later reissued at a price of Sh.8 per share.

**Required:**

The necessary ledger accounts to record these transactions **(15 marks)**

**QUESTION FIVE**

1. What is goodwiil **(2marks)**
2. Discuss the importance of revaluation of assets in partnerships and instances when its done **(6marks)**
3. A and B own a grocery shop. Their first financial year ended on 31 December 2002.

The following balances were taken from the books on that date:

Capital: A- £60,000; B - £48,000.

Partnership salaries: A - £9,000; B - £6,000.

Drawings: A - £12,000; B - £13,400.

The firm’s net profit for the year was £32,840.

Interest on capital is to be allowed at 10% per year.

Profits and losses are to be shared equally.

From the information above prepared the firm’s appropriation account and the partners’ current accounts. **(7 marks)**