

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 103**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING II**

**DATE: 4TH MAY 2016 TIME: 2.00PM-4.00PM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question **ONE** and any other **THREE** questions
2. Do not write on the question paper.

*This paper consists of* ***8*** *printed pages. Please turn over.*

**QUESTION ONE**

1. Discuss in detail the accounting treatment of the following items peculiar to non- profit making organizations when preparing the financial statements of such concerns as clubs.

(i) Donations, (ii) Entrance fee, (ii) Life membership fee, (iv) Receipts for a sports fund and (v) Legacy **(5 marks )**

1. Using relevant examples discuss **four** distinguishing features of the receipts and payments account and the income and expenditure account statements of non-profit making organizations**. (8 marks)**

c) The following is the receipts and payments of the Red Roses Club for the year ended 31st March 2015.

Red Roses Club

Receipts and Payments Account

For the year ended 31.3.2015

**Receipts sh. Payments sh.**

Balance b/d 4,800 Electricity charges 1,200

Subscriptions 74,450 Salaries 23,400

Entrance fees 8,000 Rent 9,900

Brochure receipts surplus 4,050 Postage 2,400

 Old sports material 5,200 New sports material 14,200

Interest on investment 300 Repairs to tennis court 10,060

Other incomes 225 Sundry assets 8,000

Prize fund receipts 2,800 Prize fund 4,150

 Fixed deposit 25,000

 ............ Balance c/d 795

 99,825 99,825

Additional information

The following balances are made available

 31.3.2014 31.3.2015

 Sh. Sh.

i) Sundry assets 44,000 ?

Bank balance 4,800 ?

Subscriptions in outstanding 4,750 3,500

Subscriptions received in advance 1,400 2,600

5% investments 12,000 12,000

Expenses outstanding:

 Salaries 600 1,200

 Rent 900 1,800

 Rates and taxes nil 600

 Tennis court maintenance 780 320

Owing for purchase of sports material 1,400 2,950

Prize fund 4,600 3,250

ii) The book value of sports goods sold was sh.4, 000

iii) Advertisement in brochure yet to be collected sh.450

**Required**

Prepare the income and expenditure account for the year ended 31st March, 2015 and statement of financial position as at that date. **(12 marks)**

**QUESTION TWO**

a) Explain the accounting treatment of the following items when calculating profit by net worth method when accounting for incomplete records:

 i) Drawings.

 ii) Capital introduced during the period. **(4 Marks)**

b) The books of Mr. Roho Safi on 1st January, 2015 disclosed the following position:

sh sh.

Capital 8,000 Furniture 2,000

Sundry Creditors 7,500 Sundry Debtors 9,000

Stock 4,000

………. Cash at Bank 500

15,500 15,500

During the year 2015 the books were very imperfectly kept, but an analysis of the bank transactions revealed the following:

sh.

Receipts from Customers 35,000

Drawings for personal expenses 6,000

Payment of Salaries 3,000

Payment to Creditors 22,000

Payment for rent 1,500

Miscellaneous 400

The schedule on 31.12.2015 of the debtors totaled sh. 9,500 and of creditors’ sh. 6,400. No inventory of the stock on 31.12.2015 was taken but it was stated that a gross profit at uniform rate of 40 per cent on turnover was made during the year.

**Required**

Prepare a bank account, a statement of comprehensive income for the year ended 31.12.2015 and statement of financial position as at that date.

 **(11 Marks)**

**QUESTION THREE**

A and B were in partnership preparing their accounts on 31 December every year and sharing profits and losses in the ratio 3:2 respectively. Interest was allowed on fixed capital at 10% per annum. B was entitled to a salary of sh. 36,000 per annum. On 1st January 2015 the partners admitted C, a well-known businessman, into partnership. On that day C introduced a sum of money which was equal to 50% of A’s fixed capital.

The new partnership agreement provided the following

1. Interest on capital to be maintained at 10% per annum.
2. C is to receive a commission of 10% of the net profit before appropriations.
3. Profit will be shared equally among the partners.
4. B is now entitled to a salary of sh. 42,000 per annum.

The partners also agreed to guarantee C a minimum share of sh.62, 000 per annum. Any deficiency on that balance will be compensated by the other two partners in equal proportions

For the purpose of admitting partner C goodwill was valued at sh. 120,000. No good will is to be maintained in the books.

The net profit for the year ended 31.12.2015 was sh.360, 000.

The following are the partners’ balances on 1.1.2015

 Sh.

Fixed capital: A 400,000

 B 300,000

Current Accounts: A 20,000(CR)

 B 1,400 (DR)

Drawings during the year: A 27,000

 B 16,800

 C 9,000

**Required**

i) Profit and loss appropriation account for the year ended 31st December 2015. **(6marks)**

ii) Partners Current Accounts **(6marks)**

iii) Partners Capital Accounts **(3 Marks**

**QUESTION FOUR**

a) Explain the distinction between product costs and period costs as used in manufacturing accounts .Why is this distinction important. **(2 marks)**

b) Mr. Juma is a sole trader of a shoe manufacturing business. The following trial balance was extracted from his books at 31st May 2015.

 **Sh'000' sh'000'**

Capital 1,224

Freehold land and building 900

Plant and machinery at cost 870

Motor vehicle at cost 240

Provision for depreciation:

 Plant and machinery 420

 Motor vehicle 168

Loose tools at valuation on 1.6.2014 72

Stock on 1.6.2014 :

 Raw materials 198

 Finished goods 360

Purchases: Raw materials 1,110

 Loose tools 48

Sales 3,960

Salaries and wages:

 Factory 818

 Administration 324

 Sales department 180

Rates and insurance 96

Repairs to buildings 60

Sales and motor vehicle running expenses 86

Electricity and power 360

Administrative expenses 186

Provision for doubtful debts 60

Debtors and creditors 496 482

Drawings 120

Bank 216

Cash in hand 6 ..........

 6,530 6,530

**Additional information**

1. Stock on 31st may 2015 was

 Raw materials 168,000

 Finished goods 334,000

Loose tools 96,000

1. Electricity and power owing was sh. 48,000
2. New machinery sh. 150,000
3. Payments in advance on 31st may 2015 were vehicle licenses sh. 630 and rates sh. 3,450.
4. Depreciation on plant and machinery and motor vehicle is to be provided for at the rate of 20% and 25% respectively on cost at the end of the year.
5. Bad debts amounting to sh. 6,500 is to be written off and the provision for doubtful debts to be 10% on trade debtors.
6. The following expenses are to be apportioned as two-thirds to the factory and one-third to administration: electricity and power, repairs to buildings, rates and insurance.

Required

a) Manufacturing trading and profit and loss account for the year ended 31st May 2015. **(7 marks**)

b) Statement of financial position as at 31st May 2015 **(6 marks)**

**QUESTION FIVE**

ABC limited has an authorized share capital of 5,000ordinary shares of sh. 10 each. The company's trial balance as at 31st October 2015 was as follows.

 DR CR

 Sh sh.

Ordinary shares 30,000

Share premium account 8,000

Freehold premises 35,000

Plant and machinery(Cost) 23,000

Motor vehicles (cost) 15,000

Provision for depreciation – Motor vehicles 8,000

 -Plant and machinery 17,500

Debtors and creditors 8,500 6,700

10% debentures 10,000

Purchases and sales 28,500 42,800

General expenses 1,550

Bad debts 430

Stock 1.11.2014 3,260

Debenture interest 500

Discount received 420

Bank 4,780

Salaries and wages 4,500

Directors salaries 2,000

Insurance 400

Profit and loss ............. 4,000

 127,420 127,420

**Additional information**

**1.** At 31st October 2015

 a) Insurance sh. 60 was prepaid

 b) Stock was valued at sh. 3,430

 c) A corporation tax provision of sh. 1,500 is to be made.

 d) The directors propose to pay a dividend of 10% to the ordinary shareholders.

2. Depreciation is to be calculated on non- current assets at 20% reducing balance basis.

Required

The statement of comprehensive income for the year ended 31st October 2015 and statement of financial position as at that date. **(15 marks)**

**.................................................................END...................................................................**