



UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF THE
BACHELORS DEGREE IN COMMERCE/BUSINESS ADMINISTRATION AND
SUPPLIES MANAGEMENT
FIRST SEMESTER 2023/2024
[AUGUST-DECEMBER, 2023]**

BBAM/BCOM 111: PRINCIPLES OF ACCOUNTING II

STREAM: Y1 S1

TIME: 2 HOURS

DAY: THURSDAY, 9.00 – 11.00 A.M.

DATE: 07/12/2023

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Questions ONE and any other THREE Questions***

QUESTION ONE

- (a) Discuss the purpose of a Partnership deed (3marks)
- (b) Write short notes on the following in relation to partnership accounts
- i) Admission of a partner (2marks)
 - ii) Retirement of a partner (2marks)
 - iii) Valuation of assets (2marks)
- (c) Demonstrate an awareness of the reasons for payment of goodwill (6marks)
- (d) G, W and B are partners. They share profits in the ratio $\frac{3}{8}, \frac{3}{8}$ and $\frac{1}{4}$ respectively

For the year ending 2022, their capital accounts remained fixed at the following amounts

G-sh.50,000; W-sh.40,000 and B-sh.30,000.They have agreed to give each other 5% interest p.a on their capital accounts. In addition to the above, partnership salaries of sh.32,000 for W and sh.14,000 for B are to be charged. The net profit for the partnership before taking any of the above into account was sh.84,800

Required :

- (a) Appropriation account of partnership for the year ending 2022
(5marks)
- (b) Partners' capital and current accounts after the adjustment (5marks)
(Total 25 marks)

QUESTION TWO

- (a) Explain any four causes of differences between bank statement and cashbook
(6marks)
- (b) Briefly explain why it is important for a business entity to prepare a bank reconciliation statement.
(3marks)
- (c)Maraga traders Cash Book showed debit balance of sh. 36,080 on June 30 2013 whereas the Bank statement received from his bank showed a credit balance of sh.49320 on the same date. The following differences were discovered:-
 - (a) Cheques totaling sh. 61,450 issued by Maraga traders did not appear in the bank statement
 - (b) Cheques totaling sh. 39,450 deposited on the last day of the month were credited by the bank on 5th July, 2013.
 - (c) Bank charges for the month amounted to sh. 2,410.
 - (d) The bank made payments of sh. 8,000 to land lord an Maraga traders d another of sh.2,000 to an insurance company as per his standing orders.
 - (e) A cheque for sh.6,050 deposited on June 23, 2013 was returned unpaid by the bank on July 4, 2013
 - (f) A debtor remitted sh.9,700 direct to Maraga traders account.

Required:

- Prepare a Bank Reconciliation statement (6marks)

QUESTION THREE

- (a) Explain the causes of incomplete records in a business
- (b) B.Barnes is a dealer who has not kept proper books of account. as at 31 October 2021 his state of affairs was as follows:

	Sh
Cash balance	210
Bank balance	4700
Fixtures	2800
Inventory	18200
Accounts receivable	26600
Accounts payable	12700
Van at valuation	6800

During the year to 31 October 2022 his drawings amounted to sh.32,200. Winnings from the lottery of sh.7600 were put into business. Extra fixtures were bought for sh 900.

At 31 October 2022 his assets and liabilities were: Cash sh.190; Bank overdraft sh.1810;

Inventory sh 23900; Accounts payable for goods sh.9100; Accounts payable for expenses sh.320; Fixtures to be depreciated at sh 370; Van to be valued at sh.5440;Accounts receivable sh 29,400,Prepaid expenses sh460.

Required:

A statement showing the profit or loss made by B.Barnes for the year ended 2022

QUESTION FOUR

Nathan started a business as a sole trader on 1 January 2017. He did not maintain a double entry system of accounting. The business transactions were made by cheque although occasionally some daily expenses were paid from cash sales or money withdrawn from the bank.

The receipts and payments of the sole proprietorship for the year ended 31 December 2018 are summarised below:

Receipts Sh	Payments Sh
From trade receivables 2,350,000	Salaries and wages 220,000
Capital introduced 60,000	Rent and insurance 110,000
	Motor vehicle expenses 135,000
	Trade payables 2,120,000
	Travelling expenses 20,000
	Drawings 164,000
	Printing and stationery 8,200
	Electricity 15,300
	Telephone 15,500

The balances of assets and liabilities as at 31 December 2017 and 2018 were as follows:

	2017	2018
	Sh.	Sh
Cash at bank	300,000	180,000
Cash in hand	40,000	12,000
Trade receivables	?	1,800,000
Inventories	500,000	620,000
Other receivables	-	12,000
Motor vehicle (cost)	450,000	450,000
Furniture and fittings	115,000	115,000
Trade payables	1,840,000,	1,850,000
Other payables	-	27,500

Additional information

1. Sales were made at a uniform gross profit margin of 25%.
2. Discounts allowed and discounts received during the year ended 31 December 2018 amounted to Sh. 140,000 and Sh. 120,000 respectively.
3. As at 31 December 2018, other receivables and other payables included the accruals and prepayments:

Accruals	Sh.
Printing and stationery	3,500
Telephone	24,000
Prepayments: Sh.	
Rent	10,000
Electricity	2,000

4. Depreciation is to be provided on motor vehicle using the sum-of-digits method. The estimated useful life of the motor vehicle is 5 years. Depreciation is to be provided on furniture and fittings at the rate of 10% using the straight-line method.

5. A specific allowance for bad debts of Sh.90,000 is to be made on 31 December 2018

Required

- (a) Income statement for the year ended 31 December 2018. (7marks)
- (b) Statement of financial position as at 31 December 2018. (8marks)

QUESTION FIVE

(a) Discuss the following items as used in cash flow statements clearly giving examples.

- (i) Operating activities (3marks)
- (ii) Investing activities (3marks)
- (iii) Financing activities (3marks)

(b) Explain why a business needs cash flow statement (3marks)

(c) In the context of accounting for the results of manufacturing enterprises, explain how you would account for unrealized profits on closing stock (3marks)

QUESTION SIX

Ogembo Enterprises is a sole proprietorship owned by E. Ondieki. The trial balance from books of the firm as at 30 September 2017 was as follows:

	Sh. '000'	Sh. '000'
Freehold building at cost	12,600	
Plant and machinery at cost	8,640	
Motor vehicles at cost	2,196	
Provision for depreciation (1 October 2016)		
Freehold building		1,890.0
Plant and machinery		3,456.0
Motor vehicles		1,317.6
Inventories as at 1 October 2016		
Raw materials	1,058	
Work in progress	1,800	
Finished goods	3,820	
Sales		76,536.4
Purchase of raw materials	35,564	
Discounts allowed	936	
Discounts received		450
Manufacturing wages	8,298	
Rent, rates and insurance	1,396	
Salaries	9,216	
Carriage inwards	684	
Water and electricity	4,842	
Capital (1 October 2016)		16,000
Carriage outwards	846	
Provision for doubtful debts		900
Accounts payable		3,310
Accounts receivable	7,110	
Bank balance	<u>4,864</u>	
	<u>103,860</u>	<u>103,860</u>

Additional information

- Inventories as at 30 September 2017 were as follows:

Raw materials	1,022,000
Work in progress	1,924,000
Finished goods	4,200,000

2. Prepaid insurance as at 30 September 2017 amounted to sh. 36,000 while the electricity bill outstanding at the end of the financial period was sh. 120,000.
3. Salaries include sh. 1,872,000 being drawings by E. Ondieki during the financial year.
4. Bad debts of sh. 90,000 are to be written off during the year and provision for doubtful debts is to be adjusted to sh. 720,000.
5. During the year, machinery which had cost sh. 2,000,000 was sold for sh. 960,000. The sale proceeds were credited to sales account. No other entry had been made in the books of E.Ondieki in respect of the disposal of the machinery. The accumulated depreciation on the machinery at the time of its disposal was sh. 800,000. Depreciation is to be provided on a straight-line basis as follows:
 Freehold buildings $2\frac{1}{2}\%$
 Plant and machinery 10%
 Motor vehicles 20%
 No depreciation is to be charged on the year of disposal.
6. The following expenses are to be apportioned between factory and administration as shown below:

Expense	Factory	Administration
Rent, rates and insurance	$\frac{1}{4}$	$\frac{3}{4}$
Water and electricity	$\frac{4}{5}$	$\frac{1}{5}$
Depreciation of freehold building	$\frac{5}{6}$	$\frac{1}{6}$

Required

- i. Manufacturing and income statement for the year ended 30 September 2017. (9marks)
- ii. Balance sheet as at 30 September 2017. (6 marks)