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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 7th December, 2022
Time: 11.30am –1.30pm

KAC 101 - PRINCIPLES OF ACCOUNTING 11

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Black and White have been in partnership sharing profits and losses in the ratio of 3:2 respectively. Their agreement also provides for the following:
- Interest be allowed on capital at the rate of 10% per annum
 - Interest be charged on drawings and current accounts with a debit balance at the rate of 10% per annum
 - White is entitled to a salary of sh. 1,200,000 per year

Their trial balance after the presentation of trading account on 31st March 2022 was as follows:

	sh."000"	sh. "000"
Capital Accounts:		
Black		6,000
White		3,000
Current accounts:		
Black		2,000
White	1,000	
Drawings:		
Black	3,600	
White	2,400	
10% loan from Black		4,000
12% loan from Boresha Bank Ltd		6,000
Gross profit for the year		16,000
Inventory (31st March, 2022)	3,200	
Administrative expenses	3,800	

Sales and distribution expenses	6,200	
Freehold property at cost	10,000	
Motor vehicle at cost	6,000	
Accumulated depreciation (1 April, 2021):		
Freehold property		1,000
Motor vehicles		2,400
Interest on bank loan paid	360	
Account receivable and account payable	4,800	3,000
Bank balance	2,040	
Total	43400	43400

Additional Information:

1. The following balances were available as at 31 March 2022

Sh."000"

Accrued administrative expenses	200
Sales and distribution expenses prepaid	1,200

2. A half year interest on loan from bank is owing
3. Depreciation is provided on cost as follows:

Asset	Rate per annum
Freehold property	5%
Motor vehicles	20%

Required:

- i) Income statement and appropriation account for the year ended 31 March 2022
- ii) Partners' current accounts
- iii) Statement of financial position as at 31 March 2022

(24 Marks)

- b) Differentiate between partnership business and a limited liability company

(6 marks)

QUESTION TWO (20 MARKS)

- a) Describe the process the stock exchange consultant should advice the Asute company (private company in Nairobi) should follow when issuing the shares of their company.

(10 Marks)

- b) Describe the following types of ratios and in each case give two examples.

- i) Liquidity ratios
- ii) Activity ratios
- iii) Gearing ratios
- iv) Profitability ratios
- v) Equity ratios

(10 Marks)

QUESTION THREE (20 MARKS)

- a) The following balances were extracted from the books of Majengo Limited for the year ended 31st December, 2021.

	Sh."000"
Ordinary shares	120,000
8% preference shares	40,000
Inventory (31 December, 2021)	83,852
Trade receivables	27,200
Bank balance	7,796
10% debentures	16,000
General reserves	28,000
Gross profit for the year	81,508
Bad debts	340
Salaries and wages	28,200
Insurance and rates	1,410
Telephone expenses	620
Electricity expenses	1,216
Debenture interest	800
Directors' fees	2,500
General expenses	3,108
Motor vehicles at cost	29,100
Accumulated depreciation on Motor vehicles	22,300
Office equipment at cost	44,640
Accumulated depreciation on office equipment	17,200
Land	100,000
Building at cost	32,200
Trade payables	13,722
Revenue reserves (1 January, 2021)	24,252

Additional information

1. Accrued electricity expenses as at 31 December 2021 amounted to Sh. 548,000
 2. The amount of insurance includes a premium of Sh. 300,000 paid in September 2021 to cover the company for six months from 1 October 2021 to 31 March 2022.
 3. Depreciation is provided for as follows:
 - Office equipment - 15% per annum on cost
 - Motor vehicles - 20% per annum on cost
 4. Provisions are to be made for:
 - Directors' fees - Sh. 5,000,000
 - Audit fees- Sh. 1,200,000
 - Outstanding debenture interest
 5. The directors have recommended the following:
 - Sh. 12,000,000 be transferred to general reserves
 - Dividends on preference shares be paid
 - Payment of 1% dividend on ordinary shares
- Note: Ignore depreciation on buildings

Additional information:

1. During the year ended 31 December 2021, 16,727 handbags were transferred to the warehouse at a price of sh. 2,400 each.

2. As at 31. December 2021, inventory was valued as follows:
 - Raw materials sh. 1,900,000
 - Work in progress sh. 2,880,000
 - Finished goods sh. 17,428,800
3. All handbags are sold at sh. 3,200 each
4. The allowances for doubtful debts is to be maintained at 5% of the trade receivables
5. Accrued general expenses as at 31 December 2021 were as follows:

Factory expense	Sh. 1,748,000
Office	Sh.764,000
6. As at 31 December 2021, rent and rates were prepaid as follows:
 - Factory rent Sh. 104,000
 - Office Sh. 80,000
7. Depreciation is to be provided on cost as follows:
8. Carol is entitled to 25% of the manufacturing profit based on the transfer price to the warehouse while Mary is entitled to 10% of the trading gross profit.
9. No interest is credited or charged on capital accounts or drawings

Required:

- a) Manufacturing account for the year ended 31 December 2021
- b) Income Statement of the year ended 31 December 2021
- c) Statement of financial position as at 31 December 2021

(20 Marks)

QUESTION FIVE (20 MARKS)

- a) Differentiate between ordinary share capital and preference share capital.

(6 Marks)
- b) Highlight the differences between Receipts and Payments account and Income & Expenditure account.

(6 Marks)
- c) Define the following terms:
 - i) Prime cost
 - ii) Accumulated fund
 - iii) Bonus issue
 - iv) Right issue

(4 Marks)
- d) Describe the presumptions in absence of partnership agreement

(4 Marks)