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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: 19<sup>th</sup> April, 2022  
Time: 8.30am –10.30am

**KAC 101 - PRINCIPLES OF ACCOUNTING 11**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Discuss reasons why people are willing to pay goodwill for an already existing business. (6 marks)
- b) The following information relates to Becky Limited Company.

**Income statement for the year ended 28 February 2018**

Sales	28980
Less cost of sales	<u>15295</u>
Gross profit	13685
Less expenses	<u>3785</u>
Net profit before taxation	<u>9900</u>
Taxation	3000
Net profit after taxation	<u>6900</u>
Proposed ordinary share dividend	<u>3960</u>
Retained profits for year	2940
Transfer to general reserve	<u>1770</u>
Balance retained in profit and loss account	<u>1170</u>

**Becky statement of financial position as at 28 February 2018**

	Shs.000	Shs. 000
Fixed assets (net book value)		49910
Current assets		
Stock	13860	
Debtors	8030	
Bank	<u>1080</u>	
	<b>22970</b>	

Creditors: amounts falling due within one year

Trade creditors	4650
Taxation	3000
Dividends	<u>3960</u>
	11610

Net current assets	11360
Net assets	<u>61270</u>
Capital and reserves	
Ordinary shares of kshs. 1 each	52800
General reserve	4670
Profit and loss account	<u>3800</u>
Capital employed	<u>61270</u>

**Additional information**

1. The market price of Becky's plc's ordinary shares at close of business on 28 February 2018 was Kshs. 1.25
2. All Becky's purchases and sales are on a credit basis.
3. Credit purchases for the year were Kshs. 18515.000

**Required**

Calculate:

- i) Gross profit margin (2Marks)
  - ii) Net margin (2 Marks)
  - iii) Return on capital employed (2 Marks)
  - iv) Current ratio (2 Marks)
  - v) Debtor collection period (2 Marks)
  - vi) Creditors payment period (2 Marks)
- c) Nyota Ltd issued 10,000 debentures of shs.100 at shs. 95 on December 2016.

**Required**

- Show the relevant entries in the ledger account (6 Marks)
- d) Outline three differences between loan capital and share capital (6 Marks)

**QUESTION TWO ( 20 MARKS)**

P. Burton and A. white are in partnership sharing profit and losses in the ratio of 3:2 respectively. During the year ended 31<sup>st</sup> December 2020, the net profit was shs. 15,500 and the partner's drawings were:

P. Burton	Shs. 3000
A. White	Shs. 2500

Interest is charged on partner's capital at the rate of 5% per annum. No interest is charged on drawings.

A. White is entitled to a salary of shs. 1500 per annum.

the balances on the partner's accounts (all credit balances) as at 1<sup>st</sup> January 2020 were:

	Capital A/C	Current A/c
P. Burton	Shs. 20,000	Shs. 1570
A. White	shs. 15000	shs. 890

**Required**

- i) Prepare a partnership profit and loss appropriation account. (10 Marks)
- ii) Prepare a partner's current account. (10 Marks)

### **QUESTION THREE ( 20 MARKS)**

Broadways Ltd. Has an authorized share capital of 50000 ordinary shares of shs. 10 each. The company's trial balance as at 31<sup>st</sup> October 2019 was as follows: -

	Dr	Cr
	Shs.	Shs.
Ordinary shares		300 000
Share premium account		80,000
Free hold premises	350,000	
Plant and machinery	230,000	
Motor vehicles	150, 000	
Debtors and creditors	85,000	67,000
10% Debentures		100,000
Purchases and sales	285,000	428,000
General expenses	15,500	
Bad debts	4300	
Stock on 1 <sup>st</sup> Nov.2018	32,600	
Debenture interest (half year)	5000	
Discount received		4200
Bank	47,800	
Salaries	45,000	
Directors salaries	20,000	
Insurance	4,000	
Provision for depreciation		
Plant and machinery		175000
Motor vehicles		80000
Profit and loss A/C (1 <sup>st</sup> Nov. 2018)		40000

Additional information as at 31<sup>st</sup> October 2019

- Insurance shs. 600 was prepaid
  - Stock was valued at shs. 34,300
  - A corporation tax of 15,000 is to be made
  - The directors propose to pay a dividend of 10% of the ordinary shareholders.
- Depreciation is to be calculated on fixed assets as 20% on the reducing balance.
- The debenture interest for the second half of the year is to be accrued.

#### **Required:**

- Prepare income statement for the year ended 31/10/2019 (10Marks)
- Prepare statement of financial position as at that date (10 Marks)

**QUESTION FOUR ( 20 MARKS)**

- a) From the following Receipts and Payments account of Parkland Hospital, prepare the Income and Expenditure Account for the year ending 31st December 2016 and statement of financial position as on that date:

**Receipts and Payments Account****For the Year Ending 31<sup>st</sup> December 2016**

Receipts	Shs	Payments	Shs
Balance b/f	71,300	Medicines	450,000
Subscription & fees	479,960	Doctor's	120,000
		Honorarium	
Donations	245,000	Salaries	350,000
Interest on investment @ 15 %	75,000	Miscellaneous exp	12,000
	250,000	Equipment's	150,000
		Expenses on charity	15,000
		show	
		Balance c/d	<u>24,260</u>
	<u><b>1,121,260</b></u>		<u><b>1,121,260</b></u>
Additional Information			

	1 <sup>st</sup> January <u>2016</u> Sh	31 <sup>st</sup> December <u>2016</u> sh
Subscription due	24,000	28,000
Subscriptions in advance	6,400	10,000
Stock of medicines	89,000	97,500
Equipment	212,000	316,000
Buildings (cost less depreciation)	400,000	380,000

(12 marks)

- b) Explain the following terms:-

- |                    |           |
|--------------------|-----------|
| i) Legacy          | (2 Marks) |
| ii) Donations      | (2 Marks) |
| iii) Subscriptions | (2 Marks) |
| iv) Honorarium     | (2 Marks) |

### **QUESTION FIVE ( 20 MARKS)**

- a) The following information relates to South End Ltd for the year ended 31<sup>st</sup> Dec 2018

Cash and cash equivalents	<u>000</u>
Jan 2018	8,952
Dec 2018	10,043
Operating profit	4,100
Depreciation charges	1,080
Proceeds of sale of tangible assets book value 116,000	96
Increase in working capital	165
Issuance of ordinary share capital	400
Expenses in connection with share	10
Purchases of intangible fixed assets	2540
Purchases of tangible fixed assets	2460
Corporation tax paid	1570
Interest received	2290

Required

Prepare a cash flow statement for the year ended 31<sup>st</sup> Dec 2018 (10 Marks)

- b) Differentiate between a stock split and a scrip dividend.

- c) Discuss limitations of ratio analysis. (10 Marks)