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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th April, 2023
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) Discuss the reasons why people are willing to pay goodwill when purchasing a going concern business. (5 Marks)
- b) ABC are in partnership sharing profits and losses in the ratio of 3:2:1. The following is their balance sheet as 31st December 2018

BALANCE SHEET AS AT 31ST DECEMBER 2018

Capital Accounts:		Fixed Assets	
	Shs.	Shs.	Shs.
A	12,000	Premises	15,000
B	8,000	Motor vehicles	3,800
C	4,000	Furniture & Fittings	1,200
	24,000		20,000
Current Accounts:		Current Assets	
	Shs.		Shs.
A	2,000	Stock	5,500
B	1,800	Debtors	3,700
C	(2,800)	Cash at bank	1,400
	1,000		10,600
Current Liabilities:			
Creditors	5,600		
	30,000		30,600

The partners decide to dissolve the partnership as at 1st January 2019. The premises and stock were sold for shs. 13,000. The debtors realized shs. 3,000. Motor vehicles and furniture and fittings were sold for shs. 2,500 and shs. 1,100 respectively. C is declared insolvent.

Required

- i) Realization Account (5 Marks)
- ii) Partners capital Account (5 Marks)
- iii) Bank Account (5 Marks)
- c) ABC Ltd issued 10,000 debentures of shs.100 each at shs 95 on October 2019.

Required

- Show relevant entries in ledger accounts (6 Marks)
- d) Outline contents of partnership deed (4 Marks)

QUESTION TWO (20 MARKS)

The following information has been extracted from the accounts of Madaraka Investments Limited, for the year ended 31 December 2011. Comparable figures for the previous year are as shown.

Profit statemen for the year ended 31 December

	2011	2010
	Shs. 000	Shs.000
Sales	115,200	72,000
Cost of goods	<u>(70,800)</u>	<u>(42,000)</u>
Gross profit	44,400	30,000
Less: Trading expenses	<u>(19,800)</u>	<u>(16,200)</u>
	24,600	13,800
Less: Debenture interest	<u>(900)</u>	<u>(900)</u>
Net profit before taxation	23,700	12,900
Less: Corporation tax	<u>(11,520)</u>	<u>(5,760)</u>
Net profit after taxation	12,180	7,140
Less: Ordinary share dividend	<u>(6,300)</u>	<u>(4,500)</u>
Undistributed profit for the year	<u>(5,880)</u>	<u>(2,640)</u>

Statement of financial position as at 31 December

	2011		2010	
	Shs. '000'	shs 000	shs. '000'	Shs.000
Assets employed				
Non-current assets at cost		44,400		33,600
Depreciation		(9,000)	(7,200)	
	35,400		26,400	
Current assets:				
Inventory	19,800		14,400	
Receivables	12,600		9,000	
Cash	<u> </u>	<u>32,400</u>	<u>2,800</u>	<u>26,280</u>
	67,800			52,680
Less: Current Liabilities				
Payables	7,200		5,220	
Taxation	11,520		5,760	
Proposed dividends	6,300		4,500	

Bank overdraft	2,340	27,360	—	15,480
Net assets		40,440		37,200

Financed by:

Ordinary share capital:

Authorized, issued and fully paid (shs. 25 per share)	18,000	18,000
Undistributed profits	16,080	10,200
	34,080	28,200

Long-term loan

10% debentures (secured)	6,360	9,000
	40,440	37,200

Required

- a) Use this question to compute the ratios discussed above:
- i) Gross profit margin (2 Marks)
 - ii) Gross profit mark-up (2 Marks)
 - iii) Net profit margin (2 Marks)
 - iv) Return on capital employed (2 Marks)
 - v) Current ratio (2 Marks)
 - vi) Quick ratio (2 Marks)
- b) Differentiate between share capital and loan capital (8 Marks)

QUESTION THREE (20 MARKS)

- a) The trial balance of Nana Ltd at June 2022 is as follows:

	Dr Shs.	Cr Shs.
Share capital: Authorized and issued		700,000
Stock as at 1 July 2021	410,000	
Debtors	361,780	
Creditors		155,427
10% debentures		200,000
Fixed asset replacement		50,000
General reserve		100,000
Profit and loss accounts at 30 th June 2021		74,960
Debt interest	10,000	
Equipment at cost	480,500	
Motor vehicle at cost	390,000	
Bank	100,643	
Cash	7,350	
Purchases	140,000	
Sales		640,490
Return inwards	13,964	
Carriage outwards	3,700	
Wages and salaries	64,000	
Rent, rates and insurance	30,000	
Discount allowed	14,640	
Directors remuneration	32,000	
Provision for depreciation:		

Equipment	10200
Motor vehicles	<u>127,800</u>
	<u>2,058,877</u>

Additional information

- i) Stock on June 2022 was shs 460,310
 - ii) The share capital consisted of 50,000 ordinary shares of shs 10 each and 20,000, 10 per cent preference shares of shs .10 each. The dividend on the preference shares was proposed to be paid as a dividend of 20 per cent on the ordinary shares.
 - iii) Accrued rent shs. 6000, directors remuneration shs 20,500.
 - iv) Debenture interest half year's interest owing.
 - v) Depreciation on cost: Equipment 10%, motor vehicle 20%.
 - vi) Transfer to reserves: shs. 12000 to general reserves and shs 30,000 to asset replacement reserve.
- Required;

- i) Draw income statement for the year ended 30 June 2022 (10 Marks)
- ii) Statement of financial position as at that date. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following terms
 - i) Legacy (2 Marks)
 - ii) Honorarium (2 Marks)
 - iii) Accumulated fund (2 Marks)
- b) The Victory Sports Club had the following assets and liabilities on 31 December of the years shown.

	2019	2020
	Shs.	Shs.
Accumulated fund	50,000	48,000
Outstanding salaries	700	nil
Refreshment Bill owing by club	nil	400
Sport ground	25,000	X
Furniture	1,300	X
Sports kit (A fixed asset) at valuation	12,000	10,000
Uniforms (a fixed asset)	6,500	X
Subscription due from members	500	300

The following summary of the club's receipts and payments was prepared by its treasurer for 2020:

CASH SUMMARY

	SHS.		SHS.
Balance b/f	5,400	Salaries	6,200
Subscriptions	23,000	Traveling	7,800
Donations	2,100	Stationery & postage	600
Gate Moneys	6,500	Electricity and Telephone	500
Sale of old sports kit	1,000	Refreshments	5,200
		Purchase of new sport kit	4,000
		Purchase of new uniforms	3,800

	Repairs to sports kit	700
	Maintenance of sport ground	3,400
	Balance c/f	<u>5,800</u>
<u>38,000</u>		<u>38,000</u>

Additional information:

- Sports ground was acquired several years ago on a 100 years lease for shs. 50,000.
- The old sports kit sold during the year had a book value of shs. 1,500.
- Write down furniture by shs. 300 and uniforms by shs. 3,500.

Required

- Club's income and Expenditure Account for 2020 (8 Marks)
- Its Balance sheet as at 31 December 2020 (6 Marks)

QUESTION FIVE (20 MARKS)

Kamau and Njoroge are in partnership sharing profits and losses in the ratio 3:2 respectively after crediting their accounts with interest on capital at 10% p/a and monthly salaries of shs. 15,000 and 20,000 respectively. Interest on drawing is charged at 5% p.a. their trial balance as at 31/12/2013 after drawing Income statement is as follows.

	DR SHS	CR SHS
Capital		
Kamau		500,000
Njoroge		400,000
Current		
Kamau		20,000
Njoroge		10,000
Drawing		
Kamau	225,000	
Njoroge	215,000	
Net profit		800,000
Non-current Assets (cost)		
Land and buildings	500,000	
Plant and machinery	300,000	
Motor vehicle	200,000	
Accounts receivable	100,000	
Inventory	200,000	
Cash	290,000	
Accounts payable		<u>100,000</u>
	<u>2,030,000</u>	<u>2,030,000</u>

Required

- Draw the profit and loss appropriation account, the current accounts and the statement of financial

position as at 31st December 2013.

(10 Marks)

b) Outline four limitations of ratio analysis.

(4 Marks)

c) Explain why companies do not distribute all their profits to the shareholders

(6 Marks)