



## **GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR ONE  
FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 116**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING II**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 05/12/17**

**TIME: 2.00-5.00 PM**

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### **INSTRUCTION TO CANDIDATES**

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

**This paper consists of EIGHT (8) printed pages**

*please turn over*



**QUESTION ONE (COMPULSORY)**

- (a) Briefly describe the rule in Garner versus Murray **[3 marks]**  
 (b) Outline any four circumstances under which a company may reduce its authorized capital **[4 marks]**  
 (c) The following trial balance was extracted from the books of Literary and Philosophical Society as at 30 September 2017:

	Sh	Sh
Balance at bank: current account	724,800	
Accumulated fund 1 October 2016		5,771,200
Land and buildings, at cost	3,700,000	
Debtors for subscription	62,000	
Furniture and fittings	1,874,000	
Provision for depreciation of furniture & fittings		284,000
Subscriptions		1,450,800
Lecturer's fees	920,000	
Lecturer's travel and accommodation expenses	358,000	
Donations		108,000
Camera and projector repairs	17,000	
Projectors, cameras and audio equipment	190,400	
Depreciation of equipment		54,400
Rates and water	277,000	
Lighting and heating	367,200	



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Rental of rooms		495,000
Wages – Caretaker	880,000	
- Restaurant	1,600,000	
- Bar staff	800,000	
Purchase of food	1,565,800	
Stock – bar 1 October 2016	473,600	
Bar receipts		4,032,000
Bar purchases	2,842,000	
Restaurant receipts		3,642,000
Loan		1,600,000
Deposit account – bank	1,000,000	
Interest payable and receivable		36,000
Creditors for bar and food	_____	<u>178,400</u>
	<u>17,651,800</u>	<u>17,651,800</u>

**Additional information:**

1. The bar stock was valued at Sh. 642,800 as at 30 September 2017.
2. It is expected that, of the debtors for subscriptions, Sh. 43,600 will not be collectable.
3. The interest account is net. The loan is at a concessional rate of 4% while 10% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.
4. An invoice for Sh. 43,000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation.
5. Depreciation for the year is to be provided as follows:

Furniture and fittings Sh. 194,000

Projectors, cameras, etc. Sh. 19,000.



**Required:**

- i. Bar and restaurant trading account for the year ended 30 September 2017 **[4 marks]**
- ii. An income and expenditure account for the year ended 30 September 2017 **[8 marks]**
- iii. A balance sheet as at 30 September 2017 **[6 marks]**

**QUESTION TWO**

The accountant of Hara Sports Club has extracted the following information from the books of account for the year ended 31 December 2016.

**Receipts and Payments**

<b>Receipts.</b>	<b>shs.</b>	<b>Payments.</b>	<b>shs.</b>
Balance b/d	288,000	Salaries and wages	254,000
Subscriptions. Year: 2015	249,000	New equipment	565,000
: 2016	2,050,000	Repairs and maintenance	124,000
: 2017	194,000	Office expenses	415,000
Dinner dance	723,000	Printing and stationery	168,000
Beverage sales	657,000	Purchase of beverages	497,000
Investment income	400,000	Dinner dance expenses	315,000
		Refund of subscriptions	45,000
		Sports prizes	25,000
		Transport	248,000
		Investments	1,500,000
		Balance c/d	405,000
	<b>4,561,000</b>		<b>4,561,000</b>



**Additional information**

1. Balances were as follows

	31 <sup>st</sup> December 2015	31 <sup>st</sup> December 2016
Furniture and fittings (net)	240,000	-
Equipment (net)	690,000	-
Investment at cost	3,500,000	-
Subscriptions in arrears	300,000	375,000
Salaries accrued	68,000	72,000
Stock of beverages	162,000	184,000
Subscription in advance	85,000	-

2. Subscriptions in arrears are written-off after twelve months.

3. Depreciation is provided for on reducing balance method at 10% and 20% per annum on furniture and fittings and equipment respectively.

4. Investments, which had cost Sh. 500,000, were sold on 30<sup>th</sup> December 2016 for an amount of shs. 625,000. No entries have been made in the books in this respect.

**Required:**

- i. Income and expenditure account for the year ended 31<sup>st</sup> December 2016 **[10 marks]**
- ii. Statement of financial position as at that date **[5 marks]**

**QUESTION THREE**

The following trial balance was extracted from the books of Ali and Zeinab as at 31<sup>st</sup> Dec 2016

	Dr	Cr
Printing and stationery	35,000	
Sales		3,221,000
Stock in hand at 1 <sup>st</sup> Jan 2016	230,000	
Purchases	2,082,000	
Rent and rates	103,000	



Staff salaries	361,000	
Telephone charges	29,000	
Motor vehicle running costs	56,200	
Provision for doubtful debts		3,000
Heating and light	87,000	
Discounts	9,500	3,700
Returns	21,000	61,000
Carriage inwards	17,000	
Carriage outwards	24,000	
Fixtures and fittings (cost)	260,000	
Provision for depreciation		112,000
Motor vehicles (cost)		460,000
Provision for depreciation		250,000
Drawings: Ben	240,000	
Suzane	110,000	
Current account balances at 1 <sup>st</sup> Jan 2016		
Ben		36,000
Suzane		24,000
Capital account balances at 1 <sup>st</sup> Jan 2016		
Ben		330,000
Suzane		170,000
Debtors	93,000	
Creditors		84,000
Bank	<u>77,000</u>	<u>          </u>
	<u>4,294,700</u>	<u>4,294,700</u>
	<u>          </u>	<u>          </u>



**Additional information**

1. Kshs. 100,000 is to be transferred from Ben’s Capital account to a newly opened Ben loan account on 1<sup>st</sup> Oct 2016.
2. Interest at 10% p.a on the loan is to be credited to Ben.
3. Susan is to be credited with salary at rate of 120,000 p.a from 1<sup>st</sup> July 2016
4. Stock in hand 31<sup>st</sup> Dec 2016 was valued at Kshs. 320,000.
5. Telephone charges accrued due at 31<sup>st</sup> Dec 2015 amounted to Kshs 4,000 and rent of Kshs 6000 was prepaid at that date
6. During the year ended 31<sup>st</sup> Dec 2016 Susane had taken goods costing Kshs 10,000 for his own use.
7. Depreciation is to be provided at the following annual rates on straight line basis
  - Fixture and fittings 10%
  - Motor vehicles 20%
8. Profit and Loss sharing ratio of Ben to Suzane is 3:2 respectively.

**Required:**

- i. Income Statement and appropriation account for the year ended 31<sup>st</sup> Dec 2016 **[9 marks]**
- ii. Statement of financial position as at 31<sup>st</sup> Dec 2016 including summaries of partner’s capital and current accounts for the year ended on that date. **[7 marks]**

**QUESTION FOUR**

Bushraa Tea Company Limited has an authorized share capital of Sh. 10,000,000 ordinary shares of Sh.10 each. The shares were issued at par as follows:

Payable on application	Sh.1.00
Payable on allotment	Sh.3.00
Payable on first call	Sh.4.00
Payable on second call	Sh.2.00

Applications were received for 1,630,000 shares.



It was decided to refund applicants monies on 130,000 shares and to allot all the shares on the basis of two for every three applied for.

The excess application monies received from the successful applicants is not to be refunded but is to be applied to reduce the amount payable on allotment.

The calls were made and paid in full with the exception of one member of one member holding 5,000 shares who paid neither the first nor the second call and another member who did not pay the second call on 1,000 shares. After requisite action by the directors the shares were forfeited. They were later reissued at a price of Sh.8 per share.

**Required:**

The necessary ledger accounts to record these transactions **[15 marks]**

**QUESTION FIVE**

(a) Dissolution of partnerships can be occasioned by various modes of reasons. Briefly discuss any three modes of dissolution of partnerships. **[6 marks]**

(b) Explain the following terms:

i. Share premium **[2 marks]**

ii. Rights issue **[2 marks]**

(c) A Ltd has a share capital of Ksh. 200,000 trade up of 100,000 shares of Ksh.2 each. The balance on the share premium is Ksh.60, 000. Additional capital is raised by way of a right issue. The terms are for every 5 shares held in the company, a shareholder can buy 2 shares at a price of Ksh. 2.5 per share.

**Required:**

The journal entries to reflect the above transaction assuming that all the shareholders exercise their rights and the relevant balance sheet extract. **[5 marks]**

**QUESTION SIX**

(a) A partnership is guided by the agreements by partners contained in a document called a partnership deed. However in the absence of a partnership deed the provisions of the partnership Act shall apply. Outline any five provisions of this Act **[5 marks]**

(b) Describe five sources of income for Nonprofit organizations **[5 marks]**

(c) Give a brief definition of memorandum of association and certificate of incorporation. **[5 marks]**

