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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: ECO 126**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING II**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 23/08/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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 FIVE (5) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Briefly define the following terms.
2. Goodwill [1 mark]
3. Partnership [ 1 mark]
4. Prospectus [ 1 mark]
5. State and explain the various characteristics of a partnership [6 marks]
6. Discuss the advantages and disadvantages of a partnership [6 marks]
7. The following version of the receipts and payments account has been provided by the treasurer of Maendeleo social club for the year ended 31st October 2003.

 **Receipts and payment account**

Receipts Payments

|  |  |
| --- | --- |
|  Shs.’000Opening Balance 500Bar sales 55,000Dances ticket sales 1,600Food sales 8,000Members subscriptions 35,000 **100,100** |  Sh.’000Bar purchases 24,000Accountancy fees 200 Dance expenses 900Food purchases 4,500Insurance 500Electricity 1,500Office expenses 22,000Purchase of furniture 4,000Rates 2,000Salaries and wages: Bar staff 10,000 Other staff 14,000Telephone 3,000Travelling expenses 13,000Balance c/f 500 **100,100** |

**Additional information**

 Shs. 000 shs.000

1. Fixed Assets: At November 2002

Club Premises at cost 18,000

Furniture and fittings at cost 35,000

Less provision for depreciation 14,000 21,000

 39,000

1. Accruals and sundry creditors At Nov 2002 At 31 Oct 2003

 Shs.000 Shs.000

Accountancy fees 200 250

 Bar purchases 1,500 2,000

Electricity 400 300

Members subscriptions (paid in advance) 1,000 800

Telephone 600 700

1. Sundry prepayments and receivables

Insurance 300 200

Members subscriptions (in arrears) 6,000 7,000

1. Maendeleo social club had a Bank Account, which had a balance of Shs. 2,500,000 on 1st Nov 2002.this Bank Account was not used during the year to 31st Oct 2003 and the only entry made in this account was for the interest of Shs.200, 000 which was credited to the Bank on 31st 2003.
2. Depreciation on furniture and fittings is at the rate of 10% per annum on cost. A full year depreciation is provided for any furniture bought during the year.
3. Bar stock was valued at Shs.7, 000,000 on 1st Nov 2002 and at Shs.1, 500,000 on 31st Oct 2003.
4. No Apportionment of cost is made between bar activities and other club activities

 **Required:**

1. Bar trading statement of Maendeleo Social club for the year ended 31st Oct 2003. (3 Marks)
2. Income and Expenditure statement of Maendeleo Social club for the year ended 31st Oct 2003. (7 Marks)
3. Statement of Financial position of Maendeleo Social club for the year ended 31st Oct 2003. (5 Marks)

**QUESTION TWO**

John and Mary were partners, sharing profits and losses in the ratio of 2:1. The following is the balance sheet of the partnership as 31st December 2010.

 **John and Mary Balance sheet as at 31st December 2010**

**Assets Cost Depreciation NBV**

**Non-current asset** Sh. Sh. Sh.

Office equipment 75,000 35,000 40,000

Motor vehicle 54,000 29,000 25,000

 129,000 64,000 65,000

**Current assets**

Inventory 21,000

Account receivables 24,000

Less: allowance of doubtful account [1,600] 22,400

Bank 10,600

 54,000

**Less: Current liabilities**

Account payable [23,000] 31,000

Net current assets **96,000**

**Financed by:**

Capital: John 30,000

 Mary 20,000 50,000

Current: John 26,000

 Mary 20,000 46,000

  **96,000**

On 1st January 2011, John and Mary dissolved the partnership on the following terms.

1. The Office equipment and inventory were sold for sh. 48,000 and sh. 27,000 respectively.
2. Receipt from debtors amounted to sh. 20,400.
3. The motor vehicles were taken by Mary at an agreed value of sh. 22,000 without paying cash for them.
4. Payment to creditors amounted to sh. 21,000 and discount received is sh. 2,000.
5. Dissolution cost amounted to sh. 2,600.

**Required**

1. Realization account [8 marks]
2. Partners’ capital account [6 marks]
3. Bank account [6 marks]

**QUESTION THREE**

Halima and zeinab are partners sharing profits and losses in the ratio of 3:2 respectively. Their statement of financial position as at 31st December 2018 was as under.

 **Halima and Zeinab statement of financial position as at 31st December 2018.**

**Assets** **Sh.** **Sh.**

**Non-current assets**

Land and buildings 525,000

Plant and machinery 675,000

Furniture and fittings 172,500 1,372,500

**Current assets**

Inventory 285,000

Accounts receivable 255,000

Bank 225,000 765,000

Total assets **2,137,500**

**Financed by:**

Capital accounts: Halima 750,000

 Zeinab 750,000 1,500,000

Reserves 450,000

Creditors 187,500

  **2,137,500**

On 1st January 2019 they admitted Salma as their partner on the following terms.

1. Salma to bring in sh. 450,000 as capital and pay sh.150, 000 as her share of Goodwill. No Goodwill account is to be maintained.
2. It was agreed to revalue certain assets before admitting Salma as under:

Land and buildings 825,000

Plant and machinery 600,000

Furniture and fitting 217,500

Inventory 120,000

1. The new profit sharing ratio for Halima, Zeinab and Salma will be 2:2:1 respectively.

  **Required**

1. Revaluation account [ 6 marks]
2. Partners capital account [4 marks]
3. Bank account [3 marks]
4. Statement of financial position after Salma’s admission. [7 marks]

**QUESTION FOUR**

High rise Limited decided to issue 12,000 shares of Sh.100 each
payable at on: Sh.

 Application 30

 Allotment 40

 First call 20

 Second and final call 10

 Applications were received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received except on 100 shares.

**Required**

1. Share application account [4 marks]
2. Share allotment account [4 marks]
3. First call account [4 marks]
4. Second and final call account [4 marks]
5. Bank account [4 marks]

**QUESTION FIVE**

1. Discuss the various methods that are commonly used for valuation of Goodwill in a partnership. [6 marks]
2. Describe four sources of income for Non- profit making organization [4 marks]
3. Discuss the rule in Garner versus Muray case [6 marks]
4. Explain the reasons why a company would not wish to distribute all its profits to its shareholders. [4 marks]