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Bastion of Knowledge

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OFFICE OF THE DEPUTY PRINCIPAL
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UNIVERSITY EXAMINATIONS

2017 /2018 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF ARTS
(ECONOMICS)/BUSINESS MANAGEMENT**

COURSE CODE: BBM 122/ECO 102

COURSE TITLE: PRINCIPLES OF ACCOUNTING II

DATE: 19TH APRIL, 2018

TIME: 2 PM – 5 PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

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BBM 122: PRINCIPLES OF ACCOUNTING II

STREAM: BBM/ECO

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions
- ii. Question **ONE** carries 30 marks
- iii. Do not write on the question paper

Question One

- a). XYZ ltd offered 100,000 shares of Kshs 10 each at par payable as under:
- Kshs 3 on application
 - Kshs 4:00 on allotment
 - Kshs 3:00 first call and final call

Applications were received for 140,000 shares on 1st Jan 2017. Application for 20,000 shares was rejected and application money was refunded on 10th Jan 2017 to unsuccessful applicants. Shares were allotted to the remaining applicants proportionately and excess money received from those applicants was retained against the allotment money due. The allotment was made on 20th January 2017. The first call and final call was made on 20th 2017. The call money was received on 1st March 2017.

Required

Show the entries necessary to record the above matters in the respective ledger accounts

(10 Marks)

- b). 400 ordinary shares of shs 2 each are to be issued at par payable 40% on application, 30% on allotment 30% a first call. All money for all instatement is received except money for first call for 50 shares which were forfeited. The forfeited shares were issued to a Lucer for shs 40.

Required

Show subsequent double entries

(10 Marks)

- c). List any five types of funds under nonprofit making organizations and briefly explain their accounting treatment

(10 Marks)

Question Two

John and Agnes are partners sharing profits and losses in the ration 2:1. The trial balance for the partnership as at 31st July s017 was as follows:

	Shs	Shs
Capital accounts: John		5,100,000
Agnes		2,550,000
Drawings: John	1,530,000	
Agnes	680,000	
Purchases	1,6660,000	
Sales		25,364,000
Returns inwards and returns outwards	442,000	578,000
Business premises at cost	2,380,000	
Office furniture at cot	765,000	
Trade receivables and trade payables	4,981,000	4,233,000
Inventory (1 st August 2016)	5,807,200	
Salaries	1,581,000	
Rates and insurance	715,700	
General expenses	210,800	
Carriage outwards	243,100	
Advertising	105,400	
Bank and cash	1,723,800	
	37,825,000	37,825,000

Additional information

- i. Interest on capital account balances is allowed at 5% per annum
- ii. Interest on drawings is charged at 10% per annum
- iii. Agnes is entitled to a monthly salary of shs 60,000
- iv. Outstanding advertising expenses as at 31st July 2017 are shs 10,500
- v. Rates paid in advance as at 31st July 2017 amounted to shs 49,300
- vi. Inventory as at 31st July was valued at shs 5,304,000
- vii. Depreciation on office furniture is charged at 10% per annum on cost

Required

- a. Income statement for the year ended 31st July 2017 (10 marks)
- b. Partners' capital accounts (5 marks)
- c. Statement of financial position as at 31st July 2017 (5 marks)

Question Three

The balance sheet of ABC who are equal partners stood as follows on march 2010.

Balance sheet

Kshs		Kshs	
Capital a/c		Assets	
A 82,000		Furniture	1,250
B 55,000		Investment	25,000
C (10,000)	127,500	Stock	87,500
Sundry creditors	55,000	Debtors	
		62,500	
182,500			182,500

The firm was dissolved as on that date for the purpose of dissolution the investments were valued at shs 40,000 and stock at shs 70,000. B agreed to take over the investments and A to take over the stock. A also took over the furniture at book value. The debtors' realized shs 59,000 and the creditors were paid off shs 53,500 in full satisfaction of their claims. Assuming that C is insolvent and is unable to bring anything in respect of his debt to the firm.

Required

Show the realization and capital account of all partners, the finance adjustments being made in accordance with decision in Garner Vs Murray. (20 Marks)

Question Four

The following trial balance was extracted from the book of Nyumbani Supplier Ltd as at 31 March 2012.

	Shs'000'	Sh'000'
Issued share capital:		
3,000,000 Ordinary shares of shs 100 each		300,000
600,000 6% preference shares of shs 100 each		60,000
Share premium accounts		72,000
7% debentures		72,000
Goodwill	60,000	
Motor vehicles at cost	270,000	
Accumulated depreciation on motor vehicles		87,600
Motor vehicle disposal		4,200
Furniture and fittings	106,800	
Trade receivables and trade payables	126,000	73,500
Bank and cash	65,460	



Inventory (31 st march 2012)	243,780	
Gross profit		359,400
Directors' emoluments	56,400	
Administrative expenses	200,940	
Revenue reserve (1 st April 2011)		100,680
	1,129,380	1,129,380

Addition information

- i. Debentures were issued on 1st April 2011. No interest has been paid on them
- ii. A lorry that cost shs 18,000,000 with a written down value of shs 4,800,000 was sold during the year for shs 4,200,000
- iii. Depreciation on motor vehicles for the year has not yet been charged. Depreciation should be charged at 10% per annum on cost on all motor vehicles except for the year of disposal
- iv. Allowance for doubtful debt should be at 5% per annum
- v. Provision for corporation tax for the year ended 31st march 2012 was shs 48,000
- vi. Directors have proposed a dividend of 5% to the ordinary shareholders and a transfer of shs 18,000,000 to the general reserve

Required

- a. Income statement for the year ended 31st march 2012 (10 Marks)
- b. Statement of financial position as at 31st march 2012 (10 marks)

Question Five

Describe the following types of reserves

- i. Capital reserve (5 marks)
- ii. Revenue reserves (5 marks)
- iii. Revaluation reserves (5 marks)
- iv. Share premium (5 marks)


