



# **MAASAI MARA UNIVERSITY**

## **REGULAR UNIVERSITY EXAMINATION 2018/2019 ACADEMIC YEAR FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BACHELORS OF COMMERCE, ECONOMICS, ECOOMICS AND  
STASTICS, FINANCIAL ECONOMICS, SCIENCE IN AGRICULTURAL  
ECONOMIS AND RESOURCE MANAGEMENT, HUMAN RESOURCE  
MANAGEMENT AND EDUCATION.**

**COURSE CODE: BCM 1206**

**COURSE TITLE: FOUNDATIONS OF ACCOUNTING II**

**DATE :23<sup>RD</sup> APRIL,2019**

**TIME:2.30 P.M- 4.30 P.M**

**INSTRUCTIONS TO CANDIDATES:**

***Answers question ONE and any other THREE.***

**This paper consists of 8 printed pages. Please turn over.**

**QUESTION ONE.**

- a) Explain any three reasons why some businesses do not maintain a complete set of accounting records. **( 3 marks)**
- b) On 31.12.2017, subscriptions paid in advance to Amani sports Club amounted sh. 1,101,200 while those arrears amounted to sh. 1,600,000. As at 31.12.2018, subscriptions in arrears were sh. 2,100,000 and subscriptions paid in advance amounted sh840,000. The receipts and payments account of the club showed total subscriptions received in 2018 as sh. 3,220,000. Prepare a subscriptions account to show the amount of subscriptions earned during the year ended 31.12.2018 which is to be reflected in the income and expenditure account. **[4 marks]**
- c) Explain five differences between a partnership deed and a partnership Act. **[5 marks]**
- d) Name two types of goodwill and explain how each is treated in the books of accounts of partnerships. **(4 marks)**
- e) Explain any six factors that influence the value of goodwill. **(6 marks)**
- f) Explain the difference between prime costs and manufacturing overheads, and highlight why they are charged to the manufacturing account and not the trading profit and loss account. **(3 marks)**

## **QUESTION TWO.**

The following trial balance was extracted from the books of accounts of KOWA partnership operated by Kori and Wangui partners for the period ended 31/12/2018 after preparing a trading account.

### **KOWA partnership Trial balance as at 31/12/2018**

	<b>Dr</b>	<b>Cr</b>
Trading gross profit		5,423,000
Plant and machinery (cost)	4,000,000	
Motor vehicle ( cost)	2,300,000	
Furniture and fittings (cost)	720,000	
Rates and insurance	527,000	
Debtors / Creditors	2,196,000	4,023,000
Sundry expenses	468,000	
Loan from KCB		4,500,000
Profit and loss appropriation account b/d		1,000,100
Capital Reserve		800,000
Pro. for depreciation: Plant and machinery		1,476,000
Motor vehicle		873,000
Furniture		324,000
Capital accounts: Kori		9,000,000
Wangui		5,400,000
Bank		837,000
Stock	3,090,000	
Current accounts: Kori		1,629,000
Wangui	1,044,000	
Drawings: Kori	1,656,000	
Wangui	1,080,000	
Electricity	710,000	
Interest on short term deposits		684,000
Short term deposits with HFCK	3,600,000	
Advertising	936,000	
Petty Cash	18,000	
Provision for doubtful debts		<u>30,000</u>
	<u>35,999,100</u>	<u>35,999,100</u>

**Additional information:**

1. Debtors include an irrecoverable debt of 36,000
2. There was prepaid advertising prepaid expense of 60,000 as at 31.12.2018.
3. Provision for bad and doubtful was to be 5% of the outstanding debts.
4. On 2<sup>nd</sup> Jan. 2019 a bill of 480,000 for water was received for the year ended 31<sup>st</sup> Dec. 2018.
5. On 3<sup>rd</sup> Jan 2019 a credit note of 64,000 from a correction of an error in meter reading for the month of December 2018 was received from KPLC.
6. Kori had drawn a monthly salary of 45,000 as an active partner and the total amount drawn had been included in salaries and wages account.
7. The loan from KCB had been raised on 1<sup>st</sup> July 2018 and was attracting an interest rate of 20% p.a.
8. Partners were to be credited with interest on fixed capital account balance at 12% p.a.
9. Kori and Wangui share profits and losses in the ratio of 2:1 respectively.
10. Depreciation was to be allowed as follows: Plant and machinery at 10% on reducing balance; Furniture at 15% on reducing balance and motor vehicle at 25% on straight line method.

Required:

- a) Prepare a profit and loss appropriation account for the period ended 31<sup>st</sup> Dec. 2018. **( 9 marks)**
- b) The partnership balance sheet as at 31<sup>st</sup> Dec. 2018. **( 6 marks)**

### **QUESTION THREE.**

Men Conference Ltd has an authorized share capital of 60,000,000 ordinary shares of Sh. 10 each and 500,000 shares of Sh. 50 each. The following trial balance of the company was extracted as at 31.12 2018.

	Dr	Cr
Issued and fully Paid share Capital:		
Ordinary shares		250,000,000
Preference shares		200,000,000
Share premium		10,000,000
8% debentures		3,000,000
Premises (cost)	182,000,000	
Motor vehicles (cost)	150,000,000	
Furniture and Fittings	86,000,000	
Pro. for depreciation on: Motor vehicles.		17,000,000
Furniture and Fittings		9,000,000
Stock	26,000,000	
Bad debts	1,200,000	
Debtors and creditors	61,000,000	13,000,000
Rent and Rates	3,500,000	
Directors' salaries	25,000,000	
Returns	4,000,000	2,500,000
Audit fee	7,000,000	
Purchases/Sales	137,000,000	198,000,000
Cash at bank	85,000,000	
Retained Profit b/f.		<u>38,200,000</u>
	<u>767,700,000</u>	<u>767,700,000</u>

#### **Additional information.:**

1. Closing Stock was valued at 41,000,000
  2. Directors proposed to transfer 8,000,000 to general reserve and pay dividends at 3% on ordinary shares.
  3. Provide for depreciation of motor vehicles at 10% of cost and on furniture and fittings at 10% on book value.
- a) Prepare the company's comprehensive income statement for the year ended 31<sup>st</sup> Dec. 2018. **(8 marks)**
- b) Statement of the financial position as at 31 December 2018. **(7 marks)**

#### **QUESTION FOUR.**

Kericho Sports Club has been operating for some time now. The treasurer analysed the cash book and produced the following Receipts and Payments account for the year ended 31<sup>st</sup> Dec. 2018.

<b><u>Receipts</u></b>		<b><u>Payments</u></b>	
Balance b/f	1,067,000	Loan repayment (capital)	170,000
Subscriptions	1,780,000	Rent of ground	79,000
Restaurant sales	4,030,000	Repairs and maintenance	124,000
Telephone	34,000	Rates	320,000
Social events	177,000	Water	38,000
Miscellaneous	56,000	Restaurant Purchase	2,937,000
		Electricity	506,000
		Insurance	221,000
		Repairs to equipment	326,000
		Expenses on social events	67,000
		Maintenance of ground	133,000
		Wages to grounds men	140,000
		Telephone	103,000
		Restaurant expenses	144,000
		Loan interest	97,000
		Miscellaneous	163,000
		Balance c/d	<u>1,700,000</u>
	<u>7,144,000</u>		<u>7,144,000</u>

The treasurer also provided a list of assets and liabilities at different dates.

Balances as at;	1.1 2018	31.12
		.2018
Restaurant debtors	231,000	50,000
Prepaid rates	68,000	76,000
Accrued subscriptions	778,000	425,000
Restaurant creditors	427,000	901,000
Accrued electricity	130,000	35,000
Restaurant Stock	291,000	394,000
Prepaid Subscriptions	398,000	65,000
Accrued water charges	13,000	23,000
Pavilion at cost	13,098,000	?
Loans to sports club	1,080,000	?

Additional information:

1. Loan interest outstanding and miscellaneous expenses accrued as at 31<sup>st</sup> Dec. 2018 were 33,000 and 75,000 respectively.
2. Depreciation on pavilion for the year was 498,000.
3. Rent prepaid and accrued restaurant expenses as at 31.12.2018 were 16,000 and 65,000 respectively.

**Required:**

- a) Restaurant Trading profit and loss account for the year ended 31.12.2018. **(3 marks)**
- b) Prepare the sport's club Income and expenditure account for the year ended 31 December 2018. **(7 marks)**
- c) The club's Balance sheet as at 31 December 2018. **(5 marks)**

### **QUESTION FIVE.**

Handshake owns and manages a small manufacturing business in Narok town. The following balances have been extracted from his books of account at 31 December 2018:

	Dr	Cr
	Sh.	Sh.
Capital		1,711,200
Creditors		860,000
Bank and cash balance	54,000	
Debtors	920,000	
Drawings	600,000	
Administration expenses	1,503,600	
Advertising expenses	120,000	
Factory direct wages	600,000	
Factory indirect wages	240,000	
Factory power	360,000	
Furniture and fittings (all offices)	184,000	
Heat and light	160,000	
Plant and equipment	2,768,000	
Motor vehicle (used by salesmen)	1,440,000	
Plant hire	40,000	
Provision for bad debts		32,000
Provision for depreciation:		

– Furniture and fittings		92,000
– Plant and equipment		1,384,000
– Motor vehicle		240,000
Raw material purchases	2,280,000	
Rent rates	200,000	
Sales		8,294,400
Selling and distribution expenses	664,000	
Inventories at cost:		
– Raw materials	80,000	
– Work in progress	160,000	
– Finished goods	<u>240,000</u>	
	<u>12,613,600</u>	<u>12,613,600</u>

Additional information:

1. Accruals at 31 Dec. 2018 were:

Factory power	-	Sh.1, 6000
Rent and rates	-	Sh. 4, 0000

2. There was prepayment of Sh. 8,000 for salesmen's motor vehicle insurance.

3. Inventories at 31 December 2018, were valued at cost as follows:

Raw materials	-	Sh. 152,000
Work in progress	-	Sh. 304,000
Finished goods	-	Sh. 456,000

4. Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.

5. Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.

6. Provision for doubtful debts is to be made equal to 5% of outstanding debtors at 31 December 2018.

**Required:**

a) Prepare Handshake's manufacturing, trading and profit and loss account for the year ended 31 December 2018. **(8 marks)**

b) Balance sheet as at 31<sup>st</sup> December 2018. **(7marks)**

**-END-**