

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

**2<sup>ND</sup> SEMESTER 2022/2023 ACADEMIC YEAR**

**FIRST YEAR EXAMINATION FOR THE DEGREE OF  
BACHELOR OF COMMERCE**

**BCOM 123: PRINCIPLES OF ACCOUNTING 2**

***STREAM: BCOM***

***TIME: 2 HRS***

***DAY: MONDAY [11.30-13.30 P.M]***

***DATE: 17/04/2023***

**THIS QUESTION PAPER CONSISTS OF SEVEN (7) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**



**Instructions:**

1. Answer question one compulsory and any other two questions.
2. Start a new question on a new page
3. Show all working on the answer sheet
4. Do not write anything on the question paper

**QUESTION ONE**

- a) i) briefly state the reason why a company would not wish to distribute all its profits to its shareholders. **(4 marks)**  
 ii) Distinguish between accounting and book keeping. **(4 marks)**
- b) The following balances were extracted from the books of Wamu Traders Limited as at 30<sup>th</sup> September 20x1.

	Sh.
Ordinary share of sh.20 each fully paid	600,000
8% preference shares sh.20 each fully paid	100,000
Share premium account	80,000
6% loan stock	100,000
Trade creditors	148,000
Trade debtors	330,000
Sales	4,800,000
Purchases	4,220,000
Discounts allowed	5,000
Discount received	13,000
Freehold buildings:	
At cost	500,000
Provision for depreciation	50,000
Fixtures and fittings:	
At cost	640,000
Provision for depreciation	256,000
Stock 1 October 20x1	420,000
Returns outwards	80,000
Establishment expenses	130,000
Administration expenses	56,000
Selling and distribution expenses	167,000
Bad debts written off	4,000
Provision for doubtful debts	18,000
Retained profit 1 October 20x1	362,000
Goodwill	160,000
Bank overdraft	25,000



The following additional information is available:

1. Depreciation is provided annually on the cost of fixed assets held at the end of the financial year at the following rates:  
Freehold buildings 20%; fixture & fitting 10%.
2. The trade debtor's balance includes sh. 10,000 due from Musa who has now been declared bankrupt. In the circumstance it has been decided to write the debt off as a bad debt.
3. The provision for doubtful debts as at 30<sup>th</sup> September 20x1 is to be 5 % of trade debtors.
4. Establishment expenses prepaid at 30<sup>th</sup> September 20x1 amounted to sh.4000.
5. Administration expenses accrued at 30<sup>th</sup> September 20x1 amounted to 7,000.
6. The company paid the interest on the loan stock for year ended 30<sup>th</sup> September 20x1 on 30<sup>th</sup> October 20x0.
7. Closing stock was valued at sh. 560,000.
8. The company's directors propose that the preference share dividend be paid and a dividend of 10% on the ordinary share be paid.

**Required**

- i) Trading and profit and loss account and appropriation account for the year ended 30<sup>th</sup> September 20x1 of Wamu
  - ii) Traders Limited. **(8 marks)**
  - iii) Balance sheet as at 30<sup>th</sup> September 20x1. **(6 marks)**
- c) Ratio analysis is the expression of relationship between two or more variables.
- i) Explain the main use of ratio analysis to an organization. **(4 marks)**
  - ii) Explain the limitations of ratio analysis. **(4 marks)**

**QUESTION TWO**

- a) Musa and Otieno are in partnership sharing profit and losses in the ratio 3:2 respectively after crediting themselves with a 5% interest on capital and salary of sh.20, 000 and 30,000 per month respectively. Their trial balance for the year ended 31/12/X3 is as follows:

	Dr.	Cr.
	<u>Sh '000'</u>	<u>sh '000'</u>
Plant and machinery	5,000	
Motor vehicle	4,000	
Furniture and fitting	3,000	
Sales		11,000
Stock 1/1/X3	1,000	



Purchase	5,000	
Discount	500	
Provision for bad debts		500
Debtors	3,000	
Creditors		2,000
Cash and bank	2,000	
Rent and rates	500	
Electricity and water	400	
Provision for depreciation;		
Motor vehicle		1,000
Plant and machinery		2,000
Furniture and fittings		1,000
Bad debts	400	
Returns	500	
Salaries and wages	1,000	
Drawings: Musa	1,000	
Otieno	500	
General expenses	1,000	
Capital A/C Musa		5,400
Otieno		3,000
Current A/C Musa		500
Otieno		400
	<u>28,800</u>	<u>28,800</u>

**Additional information:**

1. Stock in at 31/12/x3 amount to sh. 1,500,000
2. Salaries and wages in arrears amount to sh.200,000 while rent and rates paid in advance is sh.100,000
3. General expenses paid in advance amount to sh.300, 000 while electricity and water in arrears is sh. 200,000.
4. Depreciation is charged as follows:
  - i. Plant and machinery 10% on cost.
  - ii. Motor vehicle 20% reducing balance.
  - iii. Furniture and fitting 15% on cost.
5. Provision for bad and doubtful debts is to be maintained at 10% of debtors.

**Required:**

- i) Partners trading ,profit and loss a/c **(5 marks)**
- ii) Partners profit and loss appropriation a/c **(2 marks)**
- iii) Partner’s current a/c **(2marks)**
- iv) Partnership balance sheet as at 31/12/x3. **(5 marks)**



- b) The incorporation of business activities into a company confers life on the business as a separate legal person, therefore the organization will be controlled under the company Act Cap 486. Explain the process of formation of a company, how it is managed and how it raises funds. **(6 marks)**

### QUESTION THREE

- a) The following balances have been extracted from the books of Limuru Manufactures, a small scale manufacturing enterprise as at 31<sup>st</sup> December 20x2:

		Sh. '000'
Stock as at 1 <sup>st</sup> January 20x2:	raw materials	7,000
	Work-in-progress	5,000
	Finished goods	6,900
Purchase of raw materials		38,000
Direct labor		28,000
Factory overheads:		
	Variable	16,000
	Fixed	9,000
Administrative expenses:	rent and rates	19,000
	Lighting	6,000
	Stationary and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicle	at cost	16,000
(For sales deliveries):	provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 <sup>st</sup> January 20x2		48,000
Provision for unreleased profit at 1 <sup>st</sup> January 20x2		1,380
Motor vehicle running costs		4,500

#### Additional information:

1. Stock at 31<sup>st</sup> December 20x2 were as follows:

	Sh. '000'
Raw materials	9,000
Work-in-progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at the factory cost plus 25% of factory profit.
3. Depreciation is provided at the rate shown below on the original cost of fixed assets held at the end of each financial year:
 

Plant and machinery	-	10% per annum
Motor vehicles	-	25% per annum
4. Amount accrued at 31<sup>st</sup> December 20x2 for direct labor amounted to sh. 3,000,000 and rent and rates prepaid at 31<sup>st</sup> December 20x2 amounted to sh. 2,000,000.

**Required:**

- i) Manufacturing, trading and profit and loss account for the ended 31<sup>st</sup> December 20x2. **(8 marks)**
  - ii) Balance sheet as at 31<sup>st</sup> December 20x2. **(5 marks)**
- b) The alternative to a sole proprietor may be a partnership. Explain the advantage of a partnership to a sole proprietor. **(7 marks)**

**QUESTION FOUR**

- a) The following is a receipt and payments account prepared by the treasure of the City Golf Club for the year ended 31<sup>st</sup> December 20x5.

	Sh.		Sh.
1 <sup>st</sup> January: cash in hand	10,000	Grounds man wages	75,000
Balance at bank as per		Purchase of mowing machine	150,000
Passbook and bank statements:		rent of ground	25,000
- Deposit account	223,000	Cost of teas	25,000
- Current account	60,000	travelling expenses	40,000
31 <sup>st</sup> December bank interest on:		printing and secretarial expenses	28,000
Deposit account	3,000	repair to machinery and equipment	50,000
Donations and subscriptions	260,000	honoraria to secretary and treasurer	
Receipts from teas	30,000	for 2x4	40,000
Contribution to travelling	10,000	balance at bank as per passbook and	
Sale of equipment	8,000	bank statements:	
Net proceeds of dinner dance	78,000	- deposit account	209,000
		- current account	15,000
		Cash in hand	25,000
	<u>682,000</u>		<u>682,000</u>



***Additional information:***

Balance on:	1 <sup>st</sup> Jan 20x5	31 <sup>st</sup> Dec 20x5
	Sh.	Sh.
Subscriptions due	15,000	10,000
Sums due for printing and secretarial expense	10,000	8,000
Unpresented cheque, being payments for repairs	30,000	25,000
Interest on deposit account not entered in passbook		2,000
Estimated value of machinery and equipment	80,000	175,000

For the year ended 31<sup>st</sup> December 20x5, the honoraria to the treasure are to be increased by a total of sh. 20,000 and the grounds man is to receive a bonus of sh.20, 000. The equipment disposed had a book value of 2,000 shillings.

***Required:***

- i) Computation showing the balance on the club’s accumulated fund on 1<sup>st</sup> January 20x5. **(5 marks)**
  - ii) Income and expenditure account for the year ended 31<sup>st</sup> December 20x5. **(5 marks)**
  - iii) Balance sheet as at 31<sup>st</sup> December 20x5. **(5 marks)**
- b) Manufacturing is a process of converting input (raw material into a saleable output). Discuss how manufacturing accounts differ from normal accounting. **(5 marks)**

