



**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)  
MAIN CAMPUS,**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**SECOND YEAR SPECIAL/SUPPLIMENTARY EXAMINATIONS**

**FOR THE DEGREE  
OF  
BSC ACCOUNTING**

**COURSE CODE: BCA 109**

**COURSE TITLE: ACCOUNTING FOR PARTNASHIPS &  
JOINT ARRANGEMENTS**

**DATE: MONDAY, 1<sup>ST</sup> AUGUST 2022      TIME: 8-10 AM**

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**INSTRUCTIONS TO CANDIDATES**

Attempt QUESTION ONE and any other TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

## QUESTION ONE

- a) Clearly explain what is meant by the term goodwill in accounting for partnerships (4 marks)
- b) Explain at least four factors that contribute to goodwill in a business (8 marks)
- c) Briefly explain the main characteristics of joint ventures (8marks)
- d) Using an example explain the ruling in Garner Vs Murray with respect to accounting for partnership (4marks)
- e) What challenges do you think could lead to the conversion of a partnership into a limited liability company (6marks)

## QUESTION TWO

Amber and Beryl are in partnership sharing profits in the ratio 60:40 after charging annual salaries of £20,000 each. They regularly make up their accounts to 31 December each year. On July 1996 they admitted Coral as a partner and agreed profits shares from that date of 40% Amber, 40% Beryl and 20% Coral. The salaries credited to Amber and Beryl ceased from 1 July 1996.

The partnership trial balance at 31 December 1996 was as follows:

	£	£
Capital accounts as at 1.1.96:		
Amber		280,000
Beryl		210,000
Capital account Coral (see note (d) below)		140,000
Current accounts as at 1.1.96		
Amber		7,000
Beryl		6,000
Drawing accounts		
Amber	28,000	
Beryl	24,000	
Coral	15,000	
Loan account Amber		50,000
Sales		2,000,000
Purchases	1,400,000	
Stock 1.1.96	180,000	
Wages and salaries of staff	228,000	
Sundry expenses	120,000	
Provision for doubtful debts at 1.1.96		20,000
Freehold land at cost (see note (e) below)	200,000	
Buildings: cost	250,000	
Aggregate depreciation 1.1.96		30,000
Plant, equipment and vehicles: cost	240,000	
Aggregate depreciation 1.1.96		50,000

Trade debtors and creditors	420,000	350,000
Cash at bank	38,000	
	<u>3,143,000</u>	<u>3,143,000</u>

In preparing the partnership accounts the following further information is to be taken into account:

Closing stock at 31 December 1996 was £200,000

Debts totaling £16,000 are to be written off and the provision for doubtful debts increased by £10,000.

Provision is to be made for staff bonuses totaling £12,000.

The balance of £140,000 on Coral's capital account consists of £100,000 introduced as capital and a further sum of £40,000 paid for a 20% share of the goodwill of the partnership. The appropriate adjustments to deal with the goodwill payment are to be made in the capital accounts of the partners concerned, and no goodwill account is to remain in the records.

It was agreed that the freehold land should be revalued upwards on 30 June prior to the admission of Coral from £200,000 to £280,000. The revised value is to appear in the balance sheet at 31 December 1996.

Amber's loan carries interest at 10% per annum and was advanced dot the partnership some years ago.

Provide depreciation on the straight-line basis on cost as follows:

Buildings	2%
Plant, equipment and vehicles	10%

Profits accrued evenly during the year.

### Require:

Prepare a trading account, profit and loss account and appropriation account for the year ended 31 December 1996 and a balance sheet as at that date. (13 marks)

Prepare the partners' capital accounts and current accounts for the year in columnar form. (7 marks)

### QUESTION THREE

Kimeu, Mambo and Rotich have carried on partnership for several years, sharing profits and losses

Equally after allowing for annual salaries as follows:

	Shs
Kimeu	150,000
Mambo	90,000
Rotich	90,000

They decided to convert the partnership into a limited company, Kiboch Ltd, as at 30 November 1985, on the following terms:

- (i) Goodwill to be valued at Sh.1, 350,000.

(ii) Other assets to be valued as follows:

	<b>Shs</b>
Freehold property	2,700,000
Furniture and fittings	240,000
Motor vehicles	600,000

(iii) Each partner is to become a director of the company at the same salary as previously allowed in the partnership.

Mambo's loan is to be converted into share capital at par.

(v) Shares are to be issued to each partner at par in respect of the amounts of their equity holding at 30 November 1985. The company was incorporated on 1 December 1985.

(vi) The financial year of the partnership ends on 31 May. No action has been taken to carry out the terms of the conversion of the partnership into the limited company in the books of account.

On 31 May 1986, a trial balance showed the following position:

	<b>Shs.</b>	<b>Shs.</b>
	<b>'000'</b>	<b>'000'</b>
Capital Accounts at 1/4/1985		
Kimeu		1,800
Mambo		900
Rotich		600
Stocks 31 May 1986	1,440	
Cost of sales	3,600	
Sales		6,000
Administrative expenses	600	
Selling expenses	300	
Accounts and audit expenses	120	
Incorporation expenses	60	
Drawings during the year:		
Kimeu	150	
Mambo	90	
Rotich	90	
Freehold property at cost	2,580	
Furniture and fittings at cost	600	
Accumulated depreciation		360
Accounts receivable and payable	900	720
Prepayments and accruals	60	30
Loan - Mambo (10% interest)		900
Motor Vehicles at cost	1,200	
Accumulated depreciation		360
Bank account	_____	120
	<u>11,790</u>	<u>11,790</u>

**Additional information:**

1. The sales during the second half of the year were 60% of the total sales though the gross profit percentage remained the same throughout the year.
2. The selling expenses were proportional to the sales for each period. All other overhead expenses were incurred evenly throughout the year.
3. Salary drawings were made evenly. Drawings made after incorporation were to be treated as directors' salaries.
4. There were no purchases or sales of fixed assets during the year. Depreciation is to be provided on cost as follows:

Furniture and fittings	10% p.a
Motor vehicles	20% p.a

5. No dividends are paid or proposed but it is decided to write off the preliminary expenses and also Sh.350,000 of the goodwill.

**Required:**

- (i) Prepare the Trading and Profit and Loss Account for Kiboch Ltd. for the six months ended 31 May 1986 and a balance sheet at that date.
- (ii) Show calculation of the amount of shares to be issued to each partner.
- (iii) Define purchased and non-purchased goodwill **(20 marks)**

**QUESTION FOUR**

On 1 January 2003, Hassan and Kamau entered into a joint venture to buy and sell goods. It was agreed that Hassan should receive a commission of 2% on all losses from bad debts. Profits and losses were to be shared equally.

The following transactions took place:

- 2 January 2003: Hassan purchased goods for Sh.680,000, paying Sh.480,000 in cash and accepted two bills of exchange, one for Sh.80,000 and the other for Sh.120,000.
- 3 January 2003: Hassan sent to Kamau goods which had cost Sh.275,000 and Kamau transferred Sh.350,000 to Hassan in cash.
- 9 January 2003: Hassan sold goods to Otieno for Sh.42,000 and to Wafula for Sh.25,000 and they accepted bills of exchange for the amounts respectively due from them. Hassan endorsed both bills to Kamau who discounted them incurring discounting charges of Sh.2,000.

- 3 February 2003: Hassan sold goods for Sh.180,000. On delivery, the customer rejected goods invoiced at Sh.9,000 and these goods were collected by Kamau who sold them to another customer for Sh.11,000.
- 11 February 2003: Otieno met his bill but Wafula's bill was dishonoured. Wafula could not meet his debt and it was written off as a bad debt.
- 5 March 2003: Kamau paid the bill for Sh.80, 000 which had been accepted by Hassan, and Hassan paid the second bill for Sh.120,000.
- 20 March 2003: Hassan sold the remainder of the goods in his possession for Sh.291,000 and Kamau's sales on the same date amounted to Sh.340,000. Bad debts (apart from the amount due from Wafula) were Sh.4,200 of which Sh.3,000 was in respect of sales by Hassan.

On 30 April 2003, the venture was closed. Kamau took over the stock in his possession at a valuation of Sh.50,000 and the sum required to settle accounts between the venturers was paid by the relevant venturer.

**Required:**

- (a) Joint venture accounts which would appear in the books of Hassan and Kamau for the period ended 30 April 2003.  
(14 marks)
- (b) Memorandum joint venture account showing the distribution of profit for the period ended 30 April 2003.  
(6 marks)