



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY
(MMUST)**

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF**

BACHELOR OF COMMERCE

COURSE CODE: BCA 209

**COURSE TITLE: ACCOUNTING FOR PARTNERSHIPS AND
JOINT ARRANGEMENTS**

DATE Thursday 18TH April 2024

TIME: 11.30-1.30AM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE (30 MARKS)

The following was the partnership trial balance as at 30 April 2021:

	Sh.	Sh.
Fixed capital accounts		
Rotich		750,000
Sinei		500,000
Current accounts		
Rotich		400,000
Sinei		300,000
Leasehold premises (purchased 1 May 2020)	2,250,000	
Purchases	4,100,000	
Motor vehicle (cost)	1,600,000	
Balance at bank	820,000	
Salaries (including partners' drawings)	1,300,000	
Stocks: 30 April 2020	1,200,000	
Furniture and fittings (cost)	300,000	
Debtors	225,000	
Accountancy and audit fees	105,000	
Wages	550,000	
Rent, rates and electricity	310,000	
General expenses (Sh.352,400 for the six months to 31 October 2020)	660,000	
Cash introduced – Tonui		1,250,000
Sales (Sh.3,500,000 to 31 October 2020)		8,750,000
Accumulated depreciation: 1 May 2020		
Motor vehicle		300,000
Furniture and fittings		100,000
Creditors		<u>1,070,000</u>
	<u>13,420,000</u>	<u>13,420,000</u>

Additional information:

- On 1 November 2020 Tonui was admitted as a partner and from that date profits and losses were to be shared on the ratio 2:2:1. For the purposes of this admission, the value of goodwill was agreed at Sh.3, 000,000. No account for goodwill was to be maintained in the books, adjusting entries for transactions between the partners being made in their current accounts. On that date, Tonui introduced Sh.1,250,000 more into the firm of which Sh.375,000 comprised his fixed capital and the balance was credited to his current account.
- Interest on fixed capitals was still to be allowed at the rate of 10% per annum after Tonui's admission. In addition, after Tonui's admission, no interest was to be charged or allowed on current accounts.
- Any apportionment of gross profit was to be made on the basis of sales. Expenses, unless otherwise indicated were to be apportioned on a time basis.
- A charge was to be made for depreciation on motor vehicle and furniture and fittings at 20% and 10% per annum respectively, calculated on cost.
- On 30 April, the stock was valued at Sh.1,275,000.
- Salaries included the following partners' drawings:
Rotich Sh.150,000, Sinei Sh.120,000 and Tonui Sh. 62,500
- A difference in the books of Sh.48,000 had been written off at 30 April 2021 to general expenses, which was later found to be due to the following clerical errors:

- Sales returns of Sh. 32,000 had been debited to sales returns but had not been posted to the account of the customer concerned;
 - The purchases journal had been undercast by Sh.80,000
8. Doubtful debts (for which full provision was required) amounted to Sh.30, 000 and Sh.40,000 as at 31 October 2020 and 30 April 2021 respectively.
 9. On 30 April 2021, rates and rent paid in advance amounted to Sh.50,000 and a provision of Sh.15,000 for electricity consumed was required.

Required:

- a) Trading and profit and loss account for the year ended 30 April 2021. (16 marks)
- b) Partners' capital and current accounts for the year ended 30 April 2021 (7marks)
- c) Balance sheet as at 30 April 2021 (7 marks)

QUESTION TWO (20 MARKS)

Mack and Spencer are in partnership sharing profits and losses equally. The following is the trial balance as at 30 June 2023.

	Dr. £	Cr. £
Buildings (cost £750,000)	500,000	
Fixtures at cost	110,000	
Provision for depreciation: Fixtures		33,000
Debtors	162,430	
Creditors		111,500
Cash at bank	6,770	
Stock at 30 June 2022	419,790	
Sales		1,236,500
Purchases	854,160	
Carriage outwards	12,880	
Discount allowed	1,150	
Loan interest: King	40,000	
Office expenses	24,160	
Salaries and wages	189,170	
Bad debts	5,030	
Provision for bad debts		4,000
Loan from J King		400,000
Capitals: Mack		350,000
Spencer		290,000
Current accounts: Mack		13,060
Spencer		2,890
Drawings: Mack	64,000	
Spencer	56,500	
	<u>2,446,040</u>	<u>2,446,040.</u>

The following additional information relates to the partnership

- a) Stock, 30 June 2023, £563,400
- b) Expenses to be accrued: Office Expenses £960; Wages £2,000
- c) Depreciate fixtures 10 per cent on reducing balance basis, buildings £10,000
- d) Reduce provision for bad debts to £3,200.
- e) Partnership salary: £8,000 to Mack. Not yet entered
- f) Interest on drawings: Mack£1,800; Spencer £1,200.

g) Interest on capital account balances at 10 per cent.

Required:

Prepare a trading and profit and loss appropriation account for the year ended 30 June 2023 and a balance sheet as at that date (20 Marks)

QUESTION THREE(20 MARKS)

On 1 January 2023, 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 2023: 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 2023: Hassan sent to Kamau goods which had cost Sh.275,000 and Kamau transferred Sh.350,000 to Hassan in cash.
- 9 January 2023: 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 2023: 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 2023: 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 2023: 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 2023: 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 2023, 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 2023 (14 marks)
- (b) Memorandum joint venture account showing the distribution of profit for the period ended 30 April 2023 (6 marks)

QUESTION FOUR(20 MARKS)

- i) Discuss the reasons why people may want to start a partnership business. (6 marks)
- ii) Explain two types of goodwill that may be available for a business (4marks)
- iii) Explain the contents of a Partnership Deed (6 marks)
- iv) Explain the three methods used to account for joint ventures(4marks)