



GARISSA UNIVERSITY

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR TWO
FIRST SEMESTER EXAMINATION**

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 213

COURSE TITLE: FINANCIAL ACCOUNTING 1

EXAMINATION DURATION: 3 HOURS

DATE: 08/12/17

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has FIVE (5) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) questions from the remaining FOUR (4) questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of NINE (9) printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) Ratio analysis is one of the tools used in making sense out of financial information provided. However, this tool suffers from a number of shortcomings. Briefly describe any four such shortcomings. **[4 marks]**
- (b) Farm accounting has special features different from other enterprises. Explain any four unique features of farm accounting. **[4 marks]**
- (c) The following trial balance was extracted from the books Garissa Ltd as on 31st December 2016

Trial balance		
	Dr	Cr
	Shs	Shs
10% preference share capital		4,000,000
Ordinary share capital		14,000,000
10% Debenture (repayable 2021)		6,000,000
Goodwill at cost	5,100,000	
Buildings at cost	21,000,000	
Equipment at cost	2,400,000	
Motor vehicle at cost	3,440,000	
Provision for depreciation: Buildings 1.1.2016		2,000,000
Provision for depreciation: Equipment 1.1.2016		480,000
Provision for depreciation: Motor vehicle 1.1.2016		1,032,000
Inventory 1.1.2016	1,698,240	
Sales		20,440,000
Purchases	8,782,000	
Carriage inwards	124,000	
Salaries and wages	3,848,000	
Directors remuneration	2,460,000	
Motor expenses	62,400	



Ser. No. BBM 022/17		
Rates and insurance	173,800	
General expenses	112,000	
Debenture interest	300,000	
Accounts receivable	3,722,000	
Accounts payable		2,274,000
Bank	167,800	
Returns	100,000	60,000
Discounts	60,000	100,000
General reserve		1,000,000
Share premium account		2,000,000
Interim dividend paid	700,000	
Retained earnings 31.12.2015	<u> </u>	<u>864,240</u>
	54,250,240	54,250,240

Additional information

- i. Inventory at 31.12.2016 was Kshs 1,828,260
- ii. Depreciation for buildings Kshs 200,000; Motor vehicles Kshs 360,000; Equipment Kshs, 240,000
- iii. Provide for final ordinary dividend of 10% and preference dividend.
- iv. Transfer shs 200,000 to general reserve.
- v. Write-off goodwill impairment of shs 600,000
- vi. Authorized share capital is Kshs. 4,000,000 preference shares and shs 20 million in ordinary shares.
- vii. Provide for corporation tax Kshs. 1,000,000.

Required:

- i. Statement of comprehensive Income **[10 marks]**
- ii. Statement of financial position **[7 marks]**



QUESTION TWO

The financial statements of Baraka Ltd. for the year ended 31 December 2015 are as follows.

Baraka Ltd

Statement of comprehensive Income

For the year ended 31 December 2015

Shs. Shs.

Revenue	3,829,500	
Cost of sales	(2,721,000)	
Gross profit	1,108,500	
Distribution costs	(187,500)	
Administrative expenses	(396,000)	<u>(583,500)</u>
	525,000	
Interest received		37,500
Interest paid		<u>(112,500)</u>
Profit before taxation		450,000
Taxation		<u>(210,000)</u>
Profit for the period		<u><u>240,000</u></u>

Baraka Ltd

Statement of financial position

As at 31st December

2015	2014
Shs.	Shs.



Assets**Non-current assets**

Property, plant and equipment	570,000	457,500
Intangible assets	375,000	300,000
Investments	—	37,500

Current assets

Inventories	225,000	153,000
Receivables	585,000	472,500
Short-term investments	75,000	—
Cash in hand	3,000	1,500

Total assets 1,833,000 1,422,000

Financed by**Equity and Liabilities****Equity**

Share capital (1 ordinary shares)	300,000	225,000
Share premium account	240,000	225,000
Revaluation reserve	150,000	91,000
Retained earnings	390,000	136,500

Non-current liabilities

Loan	255,000	75,000
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Current liabilities

Trade payables	190,500	178,500
Bank overdraft	127,500	147,000
Taxation	<u>180,000</u>	<u>165,000</u>
Total equity and liabilities	<u><u>1,833,000</u></u>	<u><u>1,422,000</u></u>



Additional information

- i. The proceeds of the sale of non-current asset investments amounted to shs.45,000.
- ii. Fixtures and fittings, with an original cost of shs.127,500 and a net book value of shs.67,500 were sold for shs.48,000 during the year.
- iii. The following information relates to property, plant and equipment

	31.12.2015	31.12.2014
Shs.	shs.	
Cost	1,080,000	892,500
Accumulated depreciation	510,000	435,000
Net book value	570,000	457,500
- iv. 75,000 shs.1 ordinary shares were issued during the year at a premium of 20cts per share.
- v. Dividends totaling shs.120,000 were paid during the year.

Required

Prepare a statement of cash flows for the year to 31 December 2015 using the format laid out in IAS 7.

QUESTION THREE

On 1st January 2009 Rhodah obtained a lease for a plot of land to extract sand for a royalty of shs 1 per kg extracted, subject to a minimum rent of shs. 30,000 p.a. Rhodah has the right to recoup short workings during the first seven years of the lease but not afterwards. On 1st of January 2009, Rhodah granted a sub lease for five years to Shukri on one half of the area for a royalty of shs. 1.5 per kg merging into minimum rent of shs.18,750 p.a. Under the terms of the sub lease, Shukri can recoup the short workings in any of the two years immediately following that in which the short workings accrued. The output in kgs for Rhodah and Shukri was as follows:

Year	Rhodah (Kgs)	Shukri (kgs)
2009	15,000	9,750
2010	24,000	12,000
2011	30,000	9,840



2012	37,500	13,500
2013	39,000	13,500
2014	30,000	-
2015	33,000	-
2016	45,000	-

Required:

- i. Royalty payable account [4 marks]
- ii. Landlords account [4 marks]
- iii. Short workings account [2 marks]
- iv. Royalty receivable account [3 marks]
- v. Sub tenants account [2 marks]

QUESTION FOUR

The following balances were extracted from the books of Hola Insurance Company Ltd. on 30 April 2016.

	Sh.
Premium less re-insurance	14,791,500
Commission on direct business	660,000
Commission on re-insurance ceded	78,000
Commission on re-insurance accepted	57,000
Depreciation	96,000
Loss on sale of investment	150,000
Claims paid less re-insurance	7,560,000
Claims recovered under re-insurance not adjusted	300,000
Directors remuneration	450,000



Ser. No. BBM 022/17

Interest and dividends (net) not relating to any fund	412,500
Reserves for unexpired risk on 1 May 2015	11,700,000
Additional reserve on 1 May 2015	1,170,000
Claims outstanding on 1 May 2015	567,000
Claims outstanding on 30 April 2016	687,000
Tax deducted from interest and dividends	120,000
Salaries	960,000
Rent and rates	87,000
Postage and stationery	129,000
Surveyors and legal fees for settlement of claims	300,000
Profit and loss appropriation account 1 May 2015	2,925,000

The following additional information is available:

1. Reserves for unexpired risks to be maintained at 100% of the net premium income.
2. Additional reserves of 10% on the said premium is also to be maintained.
3. Provision for taxation to be made for the year Sh. 912,450
4. Investment reserve to be increased by Sh. 225,000.

Required:

- i. Revenue account for the year ended 30 April 2016. **[9 marks]**
- ii. Statement of Comprehensive Income for the year ended 30 April 2016 **[6 marks]**

QUESTION FIVE

- (a) Jackline and Hassan have been in partnership for the last five years. They have decided to convert the partnership into a limited company. They approach you for advice on the process of registration of a company. Briefly describe to them four documents needed for registration of a limited company. **[4 marks]**



(b) Write short notes on the following terms commonly used in banking:

- i. Cash credit [2 marks]
- ii. Overdraft [2 marks]
- iii. Discounting of bills [2 marks]
- iv. Bills of collection [2 marks]

(c) The interpretation of ratios is done by way of comparison to a specific standard. Explain any three such standards used in ratio analysis [3 marks]

