



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **TWO**
SECOND 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: 13/04/18

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** 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 **TEN (10)** printed pages

please turn over



QUESTION ONE (COMPULSORY)

(a) Explain the difference between the following pairs of terms that may be found in a company accounting.

- i. Nominal share capital and called-up share capital **[2 marks]**
- ii. Share premium and revaluation reserves. **[3 marks]**

(b) The following were extracted from the books of Biashara Limited as at 31st December 2017.

	Sh.
Ordinary shares of sh.10 each fully paid	300,000
8% preference shares of sh.10each fully paid	50,000
Share premium	40,000
6% Debentures	50,000
Creditors	74,000
Debtors	165,000
Sales	2,400,000
Purchases	2,110,000
Discounts Allowed	2,500
Discounts Received	6,500
Freehold Building (at cost)	450,000
Accumulated Depreciation on freehold buildings	125,000
Fixtures and fittings (at cost)	120,000
Accumulated Depreciation on fixtures and fittings	28,000
Stock 1 st Jan 2017	210,000
Returns outward	40,000
Directors fees	20,000
Administration expenses	73,000
Selling and distribution expenses	83,500
Bad debts written off	2,000



Provision for doubtful debts	9,000
Retained profits b/f on 1 st Jan 2017	180,000
Goodwill	80,000
Bank overdraft	13,500

Additional Information:

- i. Depreciation is charged annually on the cost of fixed asset held at the end of the financial year at the following rates;

Freehold buildings	5%
Fixtures and fittings	20%
- ii. The debtors' balance includes sh.5, 000 due from John who has been declared bankrupt, and it has been decided to write off the debt.
- iii. The provision for doubtful debts is to be 5% of debtors
- iv. Administration expenses accrued as at March 2008 amounted to shs. 4,000
- v. Further provision is to be made for directors' fees amounting to shs.10, 000
- vi. The company paid interest on the debentures for the year ended 31st December 2017 on Jan 15, 2018.
- vii. Gross profit on sales is at the rate of 20% of sales
- viii. The company's directors proposed that the preference share dividend be paid and also a dividend of 10% on ordinary shares was also to be paid.

Required

- a) An income statement for the year ended 31st December 2017 **(11 marks)**
- b) Statement of financial position as at 31st December 2017 **(9 marks)**



QUESTION TWO

- (a) Outline the importance of cash flow statement **[4 marks]**
- (b) Warsan wholesalers presented the following financial statements for the years ended 31st December 2017.

Warsan Wholesalers

Income statements for the year ended 31st December

	2016	2017
	Shs.	Shs.
Sales	1,000,000	700,000
Cost of sales	(400,000)	(280,000)
Gross profit	600,000	420,000
Operating expenses		
(Including depreciation)	520,000	486,000
Loss on sale of investment -	0	(2,000)
	80,000	(68,000)

Liboi Wholesalers

Balance Sheet as at 31st December

	2016	2017
	Shs	Shs
Fixed Assets		
Equipment and Furniture	600,000	578,000
Investments	40,000	10,000
Current Assets		
Stock	240,000	244,000



Debtors	80,000	46,000
Cash	20,000	120,000
Total Current Assets	340,000	410,000
Current Liabilities		
Trade payables	(100,000)	(146,000)
Accrued Creditors	(34,000)	(28,000)
Total Current Liabilities	(134,000)	(174,000)
Net Current Assets	206,000	236,000
Net Assets	846,000	824,000
Financed By:		
Owner's Capital	240,000	270,000
Retained earnings	116,000	48,000
Long term Loans	490,000	506,000
	846,000	824,000

Additional information

1. Furniture costing Shs. 48,000 was acquired during the year ended 31st December 2017. Liboi wholesalers paid Shs. 12,000 in cash and signed a loan agreement with the seller for the balance. The loan was still outstanding as at 31st December 2017 and is included with other loans under long-term loans.
2. All sales and purchases of goods are on credit basis.

Required:

- i. Prepare a cash flow statement for Liboi wholesalers using indirect method for the year ended 31st December 2017. **[11 marks]**



QUESTION THREE

(a) Define the following terms used in accounts of insurance company

[4 marks]

- i. Annuity
- ii. Endowment Policy
- iii. Surrender Value
- iv. Assignments

(b) The following balances were extracted from the books of UPA Assurance Co. Ltd for the year ended 31st December 2017:

Life Assurance fund	1,470,562
Claims: By death	76,980
: By maturity	56,420
Premiums	210,572
Expenses of management	19,890
Commissions	26,541
Consideration for annuities granted	10,620
Interest, dividends, and rent	52,461
Income tax on these (paid)	3,060
Surrenders	21,860
Annuities	29,420
Bonus paid in cash	9,450
Bonus utilized in reduction of	
Premium	2,500
Preliminary expenses	600
Claims admitted but unpaid at	
Year end	80,034
Annuities payable	22,380



Ser. No. BBM 132/18	
Paid up share capital	400,000
Government securities	1,490,890
Sundry assets	509,110
Fines for revising lapsed policies	92

Additional information:

- | | |
|---|----------------------|
| 1. Claims covered under reinsurance – Sh10,000 | } Claims by
death |
| 2. Further claims intimated – Sh8,000 | |
| 3. Further bonus utilised in reduction of premium – Sh1,500 | |
| 4. Interest accrued – Sh15,400 | |
| 5. Premiums outstanding – Sh7,400 | |

Required:

- | | |
|--|-----------|
| i. Revenue account for the year ended 31 st December 2017 | [6 marks] |
| ii. Statement of financial position as at 31 st December 2017 | [5 marks] |

QUESTION FOUR

- | | |
|---|-----------|
| (a) Outline the objectives of preparing farm accounts | [4 marks] |
| (b) State any limitation of using ratios analysis in measuring business performance | [5 marks] |
| (c) The following information was extract from the books of Sankuri Ranch Ltd; | |

Crop grown on the ranch for camel food was Sh.225, 000. Rearing wages were Sh.150, 000.

Opening stock of camels	100	Sh. 3,000,000
Camel food (o/stock)	-	Sh. 300,000
Purchases of camel food	-	Sh. 1,350,000
Purchases of camels during the year	200	Sh. 5,850,000
Sale of camels during the year	150	Sh. 5,625,000
Sale of slaughtered camels	40	Sh. 1,800,000
Sale of carcasses	5	Sh. 7,500



Ser. No. BBM 132/18		
Closing stock of camels	115	Sh. 5,850,000
Closing stock of camels food	-	Sh. 375,000

Out of calves born, 4 died, and their carcasses fetched nothing. Slaughter house expenses Sh225, 000

Required

- i. Prepare the camels Account

[6 marks]

QUESTION FIVE

Prime ltd is an expanding private company in electric trade. Accounts prepared in January 2017 included the following information;

Profit Statement for the year ended 31st December

	2016	2017
	‘000’	‘000’
Sales	2000	3200
Less cost of goods sold	<u>(1100)</u>	<u>(1800)</u>
Gross profit	900	1400
Less: Trading Expenses	<u>450</u>	<u>550</u>
Trading profit	450	850
Less: Debenture Interest	<u>25</u>	<u>25</u>
Net profit before taxation	425	825
Less: Corporation tax	<u>160</u>	<u>320</u>
Net profit after taxation	265	505
Less: ordinary share dividend	<u>125</u>	<u>175</u>
Undistributed profit for year	<u>140</u>	<u>330</u>



Balance sheet as at 31st December (000s)

	2016	2017		2016	2017
Sources of capital			Uses of capital		
Ordinary share capital			non-current assets (cost)	1000	1400
Authorized and issued			less:		
(Sh1 shares)	550	500	Depreciation	<u>(200)</u>	<u>(250)</u>
				800	1150
Undistributed profit	300	680			
10% Debentures	250	110	Current Assets		
			Stock	400	550
			Debtors	250	350
			Cash	<u>80</u>	<u>900</u>
				730	-
			Less: Current Liabilities		
			Liabilities		
			Creditors	145	200
			Taxation	160	320
			Proposed Dividend	125	175
			Bank Overdraft	_____	<u>65</u>
				<u>(430)</u>	<u>(760)</u>
	<u>1100</u>	<u>1290</u>		<u>1100</u>	<u>1290</u>

- (a) Calculate six accounting ratios-for both 2016 and 2017 which you feel would be of particular value in assessing the profitability and liquidity performance of Prime ltd. **[10 marks]**
- (b) Comment on the current position of Prime ltd with the aid of the accounting ratios previously selected and any other information that you consider to be relevant **[5 marks]**



QUESTION SIX

- (a) Explain five uses of financial ratios **[5 marks]**
- (b) Outline five principal distinctions between unlimited partnerships and limited companies **[5 marks]**
- (c) In the context of IAS 41(Agriculture) explain the meaning of the following terms
- i. Biological transformation **[2 marks]**
 - ii. Agricultural activity **[2 marks]**
 - iii. Biological Asset **[1 mark]**

