****

**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 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: 2 HOURS**

**DATE: 117/12/2020 TIME: 12.00-2.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) 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 TWO (2) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss five salient features of farm accounting **[10 marks]**
2. The following is the trial balance of Transit Ltd at 31 March 2018.



**Additional Information**:

1. All the motor vans were purchased on 1 April 2015. Depreciation has been, and is to be, provided at the rate of 20% per annum on cost from the date of purchase to the date of sale. On 31 March 2018 one van, which had cost £900, was sold for Kshs. 550, as part settlement of the price of £800 of a new van, but no entries with regard to these transactions were made in the books.
2. The estimated corporation tax liability for the year to 31 March 2008 is Kshs.12, 700.
3. The company has proposed to pay a final dividend of 10% for the year to 31 March 2008.
4. Stock on 31 March 2018 is Kshs. 16,700.

**Required:**

Prepare, without taking into account the relevant statutory provisions:

1. A comprehensive income statement for the year ended 31 March 2018 **[10 marks]**
2. A statement of financial position as at that date. **[10 marks]**

**QUESTION TWO**

From the following trial balance of Fedha Bank, prepare a profit and loss account for the year ended 31 Dec 2011 and a balance sheet as at 31 Dec 2011:

|  |  |  |
| --- | --- | --- |
|  | **Sh ‘000** | **Sh ‘000** |
| Debts due to other banks  Bills receivable  Customers’ liability for acceptance  Rebate on bills discounted  Reserve fund  Dividend equalization fund  Share capital  Interest and and discount received  Exchange and commission received  Profit and Loss B/F  Cash in hand  Cash with other banks  Money at call and short notice  Bills payable  Liability for customers’ acceptance  Investment in Kenya Government securities  Investment in marketable securities  Accrued interest on investments  Loans and advances  Bills purchased and discounted  Furniture, fixtures and equipment  Depreciation (Buildings)  Repairs  Exchange and commission paid  Salaries  Directors’ fees and remuneration  Stationery/Advertising  Miscellaneous expenses  Land and Buildings  Current A/C deposits  Savings bank accounts  Fixed and time deposits  Sundry creditors  Interest paid | 12,000  21,068  560  6,060.5  2,500  45,000  5,000  470.5  50,510  24,009  500  100  400  300  2,300  50  200  500  3,500  1,400 | 12,000  490  11,000  2,000  10,000  6,500  1,800  1,900  12,000  21, 068  35,000  24,500  37,670  500  . |
|  | 176,428 | 176,428 |

**Additional Information**

1. Transfer Sh500,000 to dividend equalization fund
2. Provision for taxation should be Sh500,000
3. Accumulated depreciation on buildings at year end was Sh900,000

**Required:**

1. Profit and Loss account for Fedha Bank for the year ended 31 Dec 2011 **[10 marks]**
2. Balance sheet as at 31 Dec 2011. **[10 marks]**

**QUESTION THREE**

1. A business entity may report profits in its financial statements and yet experience declining balances of the cash at hand and at bank. Explain how this is possible. **[8 marks]**
2. Set out below are the summarised balance sheets of Jasho Ltd. For the years ended 31 December 2013 and 2014. And the profit and loss account for the year ended 31 December 2014:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Statement of financial position as at 31 December** | | | | |
| **2013** |  | **2014** |  |
| Sh. ‘000’ | Sh. ‘000’ | Sh. ‘000’ | Sh. ‘000’ |
| Fixed assets |  |  |  |  |
| Freehold land |  | **18,000** |  | **22,000** |
| Plant and machinery: |  |  |  |  |
| Cost | 54,000 |  | 76,620 |  |
| Accumulated depreciation | -14,960 | **39,040** | -22,500 | **54,120** |
|  |  |  |  |  |
| Current assets: |  |  |  |  |
| Stock | 4,060 |  | 16,860 |  |
| Debtors | 2,940 |  | 3,680 | 20,540 |
| Cash at bank | 1,020 | 8,020 |  |  |
|  |  | **65,060** |  | **96,660** |
|  |  |  |  |
| Ordinary share capital | 14,800 |  | 18,800 |  |
| Revaluation reserve | 2,500 |  | 6,500 |  |
| Revenue reserves | 21,120 |  | 27,780 |  |
| Share premium | 3,000 |  | 4,800 |  |
| Loans | 8,400 | **49,820** | 5,200 | **63,080** |
|  |  |  |  |
|  |  |  |  |
| Current liabilities |  |  |  |  |
| Trade creditors | 3,040 |  | 2,820 |  |
| Proposed dividends | 2,800 |  | 3,400 |  |
| Taxation | 9,400 |  | 12,040 |  |
| Bank overdraft | - | 15,240 | 15,320 | 33,580 |
|  | **65,060** |  | **96,660** |
|  |  |  |  |  |

**Additional information:**

1. During the year ended 31 December 2014, Jasho Ltd. obtained a five-year bank loan amounting to sh.1,300,000.
2. Depreciation charged on plant and machinery during the year ended 31 December 2014 amounted to Sh.8,020,000.
3. During the year ended 31 December 2014, plant which originally cost Sh.1,380,000 was disposed of for Sh.820,000.

**Required:**

Cash flow statement in compliance with IAS 7 (Cash Flow Statements). For the year ended 31 December 2014. **[12 marks]**

**QUESTION FOUR**

1. Discuss 5 importance of financial ratios **[10 marks]**
2. The following is a summarized Income statement of XYZ Ltd. For the year ended 31 December 2012 and the balance sheet as that date.

**Income statement**

**Shs Shs**

Sales 850,000

**Less Cost of Sales**

Opening stock 99,500

Purchases 545,250

Return Inwards 14,250

659,000

Less closing stock (149,000) 510,000

**Gross Profit** 340,000

**Less operating expenses**

Selling and distribution30,000

Depreciation 10,000

Administration Expenses 135,000 175,000

EBIT 165,000

Less interest (financing) expenses (15,000)

Earnings before taxes 150,000

Taxes at 50% (75,000)

Net income after taxes 75,000

Less ordinary dividend Sh.075 per share (15,000)

**Retained profits** **60,000**



**Required:**

From the above financial statements, calculate the following financial ratios

1. Current ratio **[2 marks]**
2. Quick (acid test) ratio **[2 marks]**
3. Net working capital ratio **[2 marks]**
4. Debt ratio **[2 marks]**
5. Long-term debt ratio **[2 marks]**

**QUESTION FIVE**

1. Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. **[4 marks]**
2. List the main details relating to advances that a bank is required to disclose in its published accounts. **[10 marks]**
3. Explain the meaning of the following terms as used in cash flow statement
4. Cash equivalents **[3 marks]**
5. Financing activities **[3 marks]**