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**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 229**

**COURSE TITLE: FINANCIAL ACCOUNTING II**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 18/12/2020 TIME: 3.00-5.00 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 FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. (i) Explain four differences between Hire purchase and Installment sales. **[8 marks]**

(ii) Outline any four essentials of a valid bill of exchange **[4 marks]**

1. The following is the statement of financial position of Hassan and Jane as at 31st December 2018.

**Statement of financial position**

**As at 31st Dec. 2018**

**ASSETS Shs Shs**

**Non-Current Assets**

Plant and Machinery 1,400,000

Furniture 600,000

Motor Vehicles 150,000

Investments 350,000

2,500,000

**Current Assets**

Inventory 250,000

Debtors 125,000

Bank 75,000 450,000

**Total Assets 2,950,000**

**Financed by**

Capital: Hassan 1,000,000

: Jane 750,000 1,750,000

Current A/C: Hassan 300,000

: Jane (75,000) 225,000

1,975,000

Loan 750,000

Creditors 225,000  **2,950,000**

The partnership was dissolved on the same date.

**Additional information:**

1. Hassan agreed to take furniture at the value of shs 125,000. He also agreed to settle the loan owing.
2. The other assets were realised as follows:-

**Assets Amount**

Plant and machinery 1,300,000

Motor vehicles 650,000

Investments 400,000

Inventory 225,000

Debtors 110,000

1. The expenses of realisation amounted to shs. 10,000.
2. The creditors agreed to accept shs 210,000
3. The profit and loss sharing ratios of Hassan and Jane were 3:2 respectively.

**Required:**

1. Realisation account **[7 marks]**
2. Partners capital. **[6 marks]**
3. Bank account **[5 marks]**

**QUESTION TWO**

1. Explain three ways by which a company can finance redemption of its shares **[6 marks]**
2. The following data relates to Maendeleo wholesalers which had a consequential loss policy. The business premises were burned down on the night of 30th June 2018

Turnover for the year 31/12/18 8,000,000

Net profit 720,000

Standing charges 168,000

Sum insured 2,000,000

Standard turnover 2,600,000

Turnover in period of interruption 1,000,000

Annual turnover 12 months preceding date of fire 9,600,000

**Additional information**

1. Indemnity period is 6 months
2. Period for interruption was 1st July to 31st October (date of fire was 30th June)
3. Out of the standing charges sh. 400,000 have not been insured
4. Out of the turnover in the period of interruption sh. 240,000 was from a rented place at sh. 24,000 per month
5. Saving in standing charges were sh. 189,000 per annum
6. It was agreed that the business trends would lead to an increase of 10% in turnover

**Required:**

1. Compute the consequential loss claim. **[14 marks]**

**QUESTION THREE**

Faida Traders deals in Generators. They sell the generators for cash and also on hire purchase basis. They sold two generators on hire purchase basis to Prime Investments on 1st January 2018 for shs. 3,000,000. The cash price for these generators was Shs. 2,400,000. The payments were to be made by Prime Investments as follows:-

Deposit Shs. 600,000

The balance to be paid in 24 equal monthly installments.

The company recognizes profit on hire purchase sales in the year of sales but hire purchase interest is apportioned on time basis. The financial year of the company ends on 31st December each year.

**Required:**

Record the above transactions in the following accounts of Faida Traders for the years 2018 and 2019 where applicable.

1. Sales **[4 marks]**
2. Hire purchase interest suspense account **[7 marks]**
3. Hire purchase debtors account **[6 marks]**
4. Income statement extracts **[3 marks]**

**QUESTION FOUR**

Hola Ltd which deals in Mobile phones has head office in Nairobi and a branch in Wajir. All purchases are made by the head office and goods are charged to branches at cost plus 20%. The following information relates to the branch for the year ended 31st Dec. 2018.

Opening balances 1st Jan 2018: Branch stock (selling price) 300,000

Branch debtors 450,000

Closing balances 31st Dec 2018: Branch stock (selling price) 250,000

Transactions for the year

Goods sent to branch (selling price) 2,500,000

Goods returned by branch to head office (selling price) 200,000

Cash sales 800,000

Credits sales 2,700,000

Returns from customers 100,000

Discounts allowed 30,000

Bad debts written off 20,000

Goods stolen at branch 30,000

Cash stolen at branch 45,000

Cash received from debtors 2,450,000

**Required:**

1. Branch stock account **[6 marks]**
2. Branch adjustment account **[7 marks]**
3. Goods sent to branch account **[3 marks]**
4. Branch debtors account **[4 marks]**

**QUESTION FIVE**

1. Dissolution of partnerships can be occasioned by various modes reasons. Briefly discuss any three modes of dissolution of partnerships. **[6 marks]**
2. Outline any three circumstances under which a company may reduce its authorized capital **[3 marks]**
3. Briefly describe the rule in Garner versus Murray **[5 marks]**
4. Explain any three reasons for the preparation of departmental accounts by an organization. **[6 marks]**