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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2018/2019 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: 2 HOURS**

**DATE: 27/11/18 TIME: 09.00-11.00 AM**

**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 NINE (9) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. The following are the statements of financial position of Big Ben Ltd. as at 30. September 2010 and 30 September 2011

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | 2010 | 2011 |  |  |
| Assets |  | Sh. “000” | Sh. “000” |  |  |
| Non-current assets: | |  |  |  |  |
| Property, plant and equipment | | 38,180 | 57,612 |  |  |
| Investments available for sale | | 2,500 | 1,000 |  |  |
|  |  | 40,680 | 58,612 |  |  |
| Current assets: |  |  |  |  |  |
| Inventories |  | 8,280 | 10,350 |  |  |
| Trade receivables |  | 40,140 | 5,038 |  |  |
| Cash in hand and bank | | 1,700 | - |  |  |
|  |  | 14,120 | 15,388 |  |  |
| Total assets |  | 54,800 | 74,000 |  |  |
| Equity and liabilities: | |  |  |  |  |
| Ordinary share capital | | 31,600 | 45.400 |  |  |
| Share premium |  | 2,760 | 5,520 |  |  |
| Retained profit |  | 6,900 | 11,040 |
|  |  | 41,260 | 61,960 |  |  |
| Non-current liabilities: | |  |  |  |  |
| 10% debentures |  | 5,260 | 1,000 |  |  |
| Current liabilities: | |  |  |  |  |
| Trade payables |  | 2,760 | 4,140 |  |  |
| Taxation |  | 3,450 | 4,140 |  |  |
| Dividends |  | 2,070 | 2,070 |  |  |
| Bank overdraft |  | - | 690 |  |  |
|  |  | 8,280 | 11,040 |  |  |
| Total equity and liabilities | | 54,800 | 74,000 |  |  |

The following is an extract from the income statement of Big Ben Ltd. for the year ended 30 September 2011:

|  |  |  |
| --- | --- | --- |
|  | Sh. “000” | Sh. “000” |
| Operating profit  Finance cost  Profit before tax  Income tax expense  Profit after tax  Dividends - Paid  - Proposed  Retained profit | (1,380)  (2,070) | 12,520  (100)  12,420  (4,830)  7,590  (3,450)  4,140 |

**Additional information:**

1. An item of plant was disposed of during the year ended 30. September 2011 for Sh. 2,070,000. The item had cost Sh.4, 140,000 and had an accumulated depreciation of Sh.1, 380,000. At the same time new premises were acquired at a cost of Sh.25, 200,000.
2. There was no acquisition or disposal of investments.

**Required:**

1. Statement of cash flows for the year ended 30 September 2011 in conformity with International Accounting Standard (IAS) 7 **[15 marks]**
2. The following list of balances was extracted from the books of First Community Bank Ltd as at 31 December 2017.

|  |  |
| --- | --- |
|  | **Sh.'000'** |
| Interest income: Loans and advances | 2,512,419 |
| Government securities | 545,508 |
| Deposit and placements with other banks | 196,711 |
| Fees and commission income | 883,253 |
| Foreign exchange income | 147,376 |
| Other incomes | 2,031,859 |
| Cash | 3,015,005 |
| Balance due from Central Bank | 2,138,352 |
| Government securities | 13,542,935 |
| Interest expenses: Customers deposits | 244,580 |
| Deposits and placements from other banks | 2,630 |
| Others | 247,315 |
| Decrease in loan loss provision | 25,341 |
| Staff costs | 1,453,471 |
| Directors' emoluments | 16,097 |
| Rental charges | 181,867 |
| Depreciation of property, plant and equipment | 357,508 |
| Amortization | 65,673 |
| Other operating expenses | 1,409,511 |
| Income tax expense | 473,535 |
| Deposits and balances due from other banks | 6,891,393 |
| Loans and advances to customers | 21,836,435 |
| Investment properties | 453,099 |
| Property and equipment | 2,602,876 |
| Intangible assets | 228,495 |
| Other assets | 2,420,657 |
| Customers' deposits | 31,535,515 |
| Deposits and balances due to other banks | 53,322 |
| Borrowings | 4,521,390 |
| Current tax payable | 209,036 |
| Other liabilities | 1,893,316 |
| Ordinary share capital | 1,811,050 |
| Share premium | 10,543,037 |
| Revaluation reserve | 12,216 |
| Retained earnings brought forward | 407,176 |
| Loan loss reserve | 252,906 |
| Proposed dividends | 543,387 |
| Letters of credit guarantees and acceptances | 2,758,326 |
| Contingent liabilities | 8,517 |
|  |  |

**Required:**

1. Statement of comprehensive Income for the year ended 31 December 2017.  **[8 marks]**
2. Statement of financial position as at 31 December 2017  **[7 marks]**

**QUESTION TWO**

The following information was extracted from the books of Mama Mboga, a farmer, for the year ended 31 March2017.

Trial balance as at 31 March 2017

|  |  |  |
| --- | --- | --- |
|  | Sh | Sh |
| Purchases |  |  |
| Poultry | 420,000 |  |
| dairy cattle | 1,380,000 |  |
| Dairy cattle feed | 580,000 |  |
| Poultry feed | 150,000 |  |
| Fertilizers | 220,000 |  |
| Seeds | 100,000 |  |
| Sales |  |  |
| Crops |  | 2,740,000 |
| Dairy cattle |  | 2,500,000 |
| Eggs |  | 720,000 |
| Poultry |  | 1,640,000 |
| Milk |  | 1,210,000 |
| Opening stock |  |  |
| Mature crops | 350,000 |  |
| Growing crops | 120,000 |  |
| Seeds | 80,000 |  |
| Poultry feed | 50,000 |  |
| Fertilizers | 110,000 |  |
| Poultry | 230,000 |  |
| Dairy cattle feed | 180,000 |  |
| Dairy cattle | 520,000 |  |
| Wages |  |  |
| Poultry | 600,000 |  |
| Dairy cattle | 960,000 |  |
| Crops | 720,000 |  |
| Repairs of farm machinery | 250,000 |  |
| Farm house expenses | 180,000 |  |
| Office expenses | 825,000 |  |
| Crops expenses | 280,000 |  |
| Dairy cattle expenses | 240,000 |  |
| Poultry expenses | 450,000 |  |
| Farm machinery Net book value | 2,500,000 |  |
| Office furniture Net book value | 1,500,000 |  |
| Drawings in cash | 600,000 |  |
| Capital account |  | 4,800,000 |
| Debtors | 675,000 |  |
| Creditors |  | 780,000 |
| Cash in hand and bank balances | 350,000 |  |
| Accruals |  | 230,000 |
|  | 14,620,000 | 14,620,000 |

1. during the year ended 31 March 2017

|  |  |  |
| --- | --- | --- |
|  | Proprietor | Workers |
|  | Sh. | Sh. |
| Poultry | 50,000 | 120,000 |
| Milk | 80,000 | 170,000 |
| Crops | 20,000 | 60,000 |

2. Farm machinery is depreciated at the rate of 10% per annum on the reducing balance basis while furniture which initially cost Sh. 3,000,000 is depreciated at 10% per annual, on cost

3. On 31 March 2017, the closing stocks were as follows

|  |  |
| --- | --- |
|  | Sh. |
| Dairy cattle | 480,000 | |
| Dairy cattle feed | 150,000 | |
| Mature crops | 270,000 | |
| Seeds | 40,000 | |
| Poultry | 140,000 | |
| Poultry feed | 70,000 | |
| Fertilizers | 80,000 | |
| Growing crops | 160,000 | |

**Required:**

1. Crop account, poultry account and dairy account for the year ended 31 March 2017. **[6 marks]**
2. Income statement for the year ended 31st March 2017. **[8 marks]**
3. Statement of financial position as at 31 March 2017 **[6 marks]**

**QUESTION THREE**

The following balances were extracted from the books of Akili LTD as at 30 June 2016

|  |  |
| --- | --- |
| 24.000,000 ordinary share of Sh.20 each  1000,000 8% preference shares of Sh.20 each  inventory (30 June 2016)  Account receivables and prepayrnents.  Account payables and accruals  Bank balances  1Oodebenture  General reserves  A Bad debts  Gross profits for the period  Wages and salaries  Rates and insurance  Postage and telephone  Electricity  Debentures interest  Directors fees  General expenses  Motor Vehicles(cost Sh.1 16,400,000)  Office fittings and equipment’s (cost Sh. 178,560,000)  Land(cost)  Profit and loss account(1 July 2015) | Sh.000  480,000  160,000  335,408  108,800  54,888  3 1,1 84  64,000  112,000   1,360  326,032  112,800  5,640  2,480   4,864  3,200  10,000  12,432  27,200  109,760  528,800  97,008 |

**Additional Information:**

1. A Bill for Sh.2, 192,000 in respect \of electricity for the period ended 30 June 2016 had not been paid
2. The amount for insurance is includes a premium of Sh. 1,200,000 paid in March 2016 by a company for six month ending 30 September 2016.
3. Office fittings and equipment are to be depreciated at rate of 15%per annum on cost and motor e1iic1e at 20%per annum on book value.
4. Provisions are to be made for:   
   • Directors fees Sh.20, 000,000   
   • Audit fees Sh.4.800, 000   
   • Outstanding debenture interest
5. The directors have recommended that Sh.48.000, 000 be transferred to general reserves

**Required**

1. Income statement for the year ended 30 June 2009  **[10 marks]**
2. Statement of financial position as at 30 June 2009  **[10 marks]**

**QUESTION FOUR**

Janet and Ruth are sole proprietors carrying on business as wholesalers. Their financial statements for the year ended 31 March 2011 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Income statements for the year ended 31 March 2011:   |  |  |  | | --- | --- | --- | |  | Janet  Sh. "000" | Ruth  Sh. "000" | | Sales | 144,000 | 140,000 | | Cost of sales |  |  | | Opening inventory | 28,000 | 3,200 | | Purchases | 124,000 | 121,600 | |  | 152,000 | 124,800 | | Closing inventory | (32,000) | (4,800) | |  | 120,000 | 120,000 | | Gross profit | 24,000 | 20,000 | | Distribution costs | 7,200 | 2,800 | | Administrative expenses | 8,160 | 9,500 | |  | 15,360 | 12,300 | | Net profit | 8,640 | 7,700 | |

Statement of financial position as at 31 March 2011:

|  |  |  |
| --- | --- | --- |
|  | Janet  Sh. "000" | Ruth  Sh. "000" |
| Assets  Non-current assets  Freehold property  Fixtures, fittings and equipment  Motor vehicles  Current assets Inventories  Accounts receivable  Bank balances  Total assets  Capital and liabilities Capital  Accounts payable  Total capital and liabilities | 20,000  21,750  12,000 53,750  32,000  28,800  8,950  69,750 123,500  108,000  15,500 123,500 | 14,000  13,840   6,000  33,840  4,800  11,200  11,360  27,360  61,200  30,800  30,400  61,200 |

**Additional information:**

1. The amounts of accounts receivable and accounts payable have not changed significantly over the year. All the sales are on credit.
2. All the non-current assets are at written down values.
3. Assume that inventories increased evenly over the year.

**Required:**

1. For each business, compute the following:
2. Three (3) profitability ratios  **[6 marks]**
3. Current ratio  **[2 marks]**
4. Acid test ratio  **[2 marks]**
5. Inventory turnover ratio  **[3 marks]**
6. Total assets turnover ratio  **[3 marks]**
7. Accounts receivable turnover ratio  **[2 marks]**
8. Using the ratios computed in (a) above, comment on the performance of each business

**[2 marks]**

**QUESTION FIVE**

Bima Insurance Ltd specializes in general insurance business. The following trial balance was extracted from the books of the company as at 31 October 2016.

Trial Balance as at 31 October 2016

|  |  |  |
| --- | --- | --- |
|  | Sh “000” | Sh “000” |
| Direct premiums received |  |  |
| Marine |  | 45,000 |
| Fire |  | 35,000 |
| Re-insurance premiums received |  |  |
| Marine |  | 12,000 |
| Fire |  | 8,000 |
| Re-insurance premiums paid |  |  |
| Marine | 8,000 |  |
| Fire | 5,000 |  |
| Sundry debtors | 7,300 |  |
| Bank balance and cash in hand | 1,100 |  |
| Unearned premium as at 1 November 2015 |  |  |
| Marine |  | 48,000 |
| Fire |  | 25,000 |
| Claims outstanding as at 1 November 2015 |  |  |
| Marine |  | 8,000 |
| Fire |  | 5,400 |
| Claims paid |  |  |
| Marine | 24,700 |  |
| Fire | 18,000 |  |
| Legal costs incurred on claims |  |  |
| Marine | 1,800 |  |
| Fire | 1,300 |  |
| Survey expenses relating to claims |  |  |
| Marine | 3,200 |  |
| Bad debts |  |  |
| Marine | 1,700 |  |
| Fire | 1,200 |  |
| Investment in shares | 14,000 |  |
| Freehold property | 42,000 |  |
| Motor vehicles net book value | 35,000 |  |
| Machinery and equipment net book value | 15,000 |  |
| Furniture net book value | 13,000 |  |
| Audit fees | 2,400 |  |
| Directors’ fees | 4,950 |  |
| Depreciation of fixed assets | 9,050 |  |
| Management expenses |  |  |
| Marine | 6,500 |  |
| Fire | 5,800 |  |
| Ordinary shares capital |  | 30,000 |
| Shares premium |  | 10,000 |
| Profit and loss account balance as at 1 November 2015 |  | 4,500 |
| Premium outstanding as at1 November |  |  |
| Marine | 9,000 |  |
| Fire | 7,000 |  |
|  | 237,000 | 237,000 |

**Additional information:**

1. Premium outstanding as at 31 October 2016 amounted to Sh. 15,000,000 and Sh. 7,000,000 for marine insurance and marine insurance respectively.
2. Claims intimated and outstanding as at 31 October 2016 amounted to Sh. 7,500,000 for marine and Sh. 4,800,000 for fire insurance.
3. Unearned premium reserve for unexpired risks is maintained at 100% and 5% of the net premium for marine insurance and fire insurance respectively.
4. Commission on both the re-insurance ended and re-insurance accepted is at the rate of 5% of the premium.
5. The directors have proposed a dividend of 10% on the outstanding share capital as at 1 October 2016.
6. The tax rate applicable is 30%

**Required:**

1. Revenue accounts for both marine and fire insurance for the year ended 31 October 2016.  **[10 marks]**
2. Income statement for the year ended 31 October 2017. **[5 marks]**
3. Statement of financial position as at 31 October 2017  **[5 marks]**