GARISSA UNIVERSITY

DIPLOMA IN BUSINESS MANAGEMENT

DBM 08 FINANCIAL ACCOUNTING

SEMESTER 1.2 May- August 2021

DRAFT

**QUESTION ONE**

1. Discuss the key features of a partnership Entity. (8 Mark
2. Outline key features of partnership agreement. (8 Marks)
3. Explain entrepreneur would consider a partnership entity over sole proprietorship (6 Marks)
4. Define the term company and explain how the company is formed. (8 Marks)

**QUESTION TWO**

Shamsa, Bashir and Mohamed are partners operating a business under Bashane Agencies. they share profits and losses in the ratio 3:1:1.

In the first year of trading, ending 31 December 2020, the partnership earned a net profit of Shs. 15,800,000. They have agreed interest should be allowed on capital at 10% per annum. Also, it has been agreed that Shamsa should receive a partnership salary of Sh. 4,500,000 per annum. Capital account balances are as follows: Shamsa Ksh. 8,000,000, Bashir Ksh.6, 000,000 and Mohamed Ksh. 6,000,000.

Required

1. Draw up the income statement/Appropriation account of the partnership for the year ended 31 December 2016 (10 Marks)
2. Draw the capital account, and current account ( 6 Marks)
3. Describe the key features of Appropriation Account (4 Marks

**QUESTION Three.**

1. Explain the process of forming a company. (8 marks)
2. Define the following terms
3. Memorandum of association
4. Article of Association
5. Trial balance
6. Nominal partner
7. Interest on drawing
8. Statement of financial position (6 mark)

(c) Briefly explain the importance of a statement of financial position to the company. (6 Marks)

**QUESTION FOUR**

Financial accounting is majorly about understanding universally international accounting standards and terms and how each is treated in the books of the accounts. Show how the following terms and accounting principles are treated.

1. Interest on drawings
2. Interest on capital
3. Loans from the Partners in regard to partnership entity.
4. Partner’s salary
5. Differed tax in relation to Company accounts. (15 Marks)

(b) Define the term company (2 marks)

(c) Briefly explain the meaning of Non-Trading organizations giving examples (3Marks)

**QUESTION FIVE**

The following balances were extracted from the books of Aminama Limited as at 30th September 2020.

|  |  |
| --- | --- |
|  | Shs. “000” |
| Land and buildings (NBV) |  5,000 |
| Plant and machinery (NBV) |  8,600 |
| Motor vehicles (NBV) |  2,000 |
| Inventory |  6,000 |
| Ordinary share capital (Kshs.50 par value) |  10,000 |
| 10% preference share capital (Kshs. 100 par value) |  9,000 |
| 10% debentures |  8,000 |
| Corporation tax |  500 |
| Interim ordinary dividend paid |  2,000 |
| Other operating expenses |  1,550 |
| Distribution costs |  6,000 |
| Administrative expenses |  13,000 |
| Accounts payable | 19,000 |
| Other operating income |  4,000 |
| Gross profit | 25,000 |
| Debenture interest paid |  400 |
| Preference dividend paid |  450 |
| Accounts receivables | 20,000 |
| Cash at bank |  4,100 |
| Capital redemption reserve |  6,000 |
| Share premium |  4,000 |
| Revenue reserves (1st October 2009) |  3,000 |

**Additional information**

1. The balance on the corporation tax account represents an over provision of tax for the previous year. Tax expense for the current year is estimated at Kshs. 3million.
2. On 15th September 2010, the directors of the company proposed to pay a dividend due to the preference shareholders and also to pay final dividend of Kshs 2million to the ordinary shareholders.
3. A building whose net book value is Kshs. 5million is to be revalued to Kshs. 9million

**Required:**

1. Income statement for the year ended 30th September 2019 (12 Marks)
2. Statement of financial position as at 30th September 2019 (8 Marks