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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 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 I**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 03/04/2021 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 EIGHT (8) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Explain the meaning of the following terms as used in insurance business
2. Bonus in reduction of premium. (2 marks)
3. Surrender value (2 marks)
4. Explain the circumstances under which an entity should recognize a biological asset or agricultural produce in the context of International Accounting Standard (IAS) 41, Agriculture. (4 marks)
5. Define the term royalty and explain three types of royalty in accounting. (6 marks)

The following information was extracted from the books of Deco, a farmer, for the year ended 31 March2018.

**Trial balance as at 31 March 2018**

|  |  |  |
| --- | --- | --- |
|  | **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 2018

|  |  |  |
| --- | --- | --- |
|  | **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 2018, 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 2018. (6 marks)
2. General profit and loss account for the year ended 31st March 2018. (5 marks)
3. Balance sheet as at 31 March 2018.(5 marks)

**QUESTION TWO**

1. Explain four limitations of ratio analysis. (4 marks)
2. Explain three reasons why in many organizations the cash flow for a given period differs from the profit realized by the organization in the same period. (6 marks)
3. The following arc the statements of financial position of Garane Ltd. as at 30. September 2017 and 30 September 2018

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2017** | **2018** |  |  |
| **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 Garane Ltd. for the year ended 30 September 2018:

|  |  |  |
| --- | --- | --- |
|  | **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 2018 for Sh.2, 070,000. The item had cost Sh.4, 140,000 and had an accumulated depreciation ofSh.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:**

Statement of cash flows for the year ended 30 September 2018 in conformity with International Accounting. Standard (IAS) 7 - statement of cash flows. (10 marks)

**QUESTION THREE**

1. Briefly explain the silent features of farm accounts**.** (6 marks)

The following list of balances was extracted from the books of National Bank Ltd as at 31 December 2018.

|  |  |
| --- | --- |
|  | **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 for the year ended 31 December 2018. (7 marks)
2. Statement of financial as at 31 December 2018 (7 marks)

**QUESTION FOUR**

1. Explain the following terms

Insurance contract. (2 marks)

1. Commission ceded (2 marks)
2. Surrender value (2 marks)
3. Endowment policy (2 marks)
4. The following information relates to Takaful Insurance Company Ltd. for the year ended 31st December 2018.

**Trial balance as at 31st December 2018**

|  |  |  |
| --- | --- | --- |
| Ordinary share capital  Revaluation reserves  Retained earnings  reserves (1st January 2018)  Unearned premium reserves (1 January 2018)  Fire  Marine  Net earned premiums: fire  Marine  Net commissioned paid: fire  Marine  Net claims paid: fire  Marine  Net claims outstanding (1st January 2018)  Fire  Marine  Management expenses  Bad debts written off  Treasury bills  Treasury bonds  Deposits in banks  Motor vehicles at net book value (1st January 2018)  Equipment at net book value (1st January 2018)  Amounts due to other insurers  Amount due from other insurers  Bank overdraft  Investment income  Other income | **Sh. ‘000’**  25,995  52,035  418,380  836,715  1,313,310  37,500  1,493,250  85,395  3,555,750  7,500  108,105  52,050  \_\_\_\_\_\_\_\_\_  ­­­­­­­­­­­\_\_7,985,985 | **Sh. ‘000’**  900,000  375,000  225,000  300,000  750,000  1,047,510  1,945,920  540,270  1,080,555  30,000  120,000  540,000  131,730  7,985,985 |

**Additional information:**

1. Management expenses are to be allocated to ‘fire’ and ‘marine’ businesses on the basis of the net earned premiums. However, an amount of Sh. 150 million of the management expenses is to be charged to the profit and loss account for the year ended 31st December 2018.
2. Provisions for unexpired risks as at 31 December 2018 are to be maintained at 50% and 80% of the respective net earned premiums for ‘fire’ and ‘marine’ businesses respectively.
3. Depreciation on motor vehicles and equipment is to be provided on a reducing balance basis at the rates of 20% and 10% per annum respectively.
4. Net claims outstanding as at 31 December 2018 were as follows

**Sh. ‘000’**

Fire 675,000

Marine 1,185,000

**Required**:

1. Revenue accounts for the year ended 31 December 2018 (4 marks)
2. Income statement for the year ended 31 December 2018 (4 marks)
3. Statement of financial position as at 31 December 2018 (4 marks)

**QUESTION FIVE**

1. Explain the following terms as used in company accounts.
2. Cumulative preference shares. (2 marks)
3. Public offer. (2 marks)
4. Mortgaged debenture (2 marks)
5. Faiba ltd issued 5 million ordinary shares of sh. 20 par value payable as follows

|  |  |
| --- | --- |
|  | Sh. |
| On application | 3 |
| On allotment | 8 (including premium) |
| On fire call | 7 |
| On second and final | 4 |

The following is a sequence of the transaction relating to the issues

Date

May 2010:

5: application were received for 7,200,000 ordinary shares

18: application for 1,200,000 ordinary shares were rejected and the application monies

refunded to the applicant

20: allotment letter were issued to 6,000,000 application 5 shares were allotted for every 6

shares

applied for. Excess application monies were to be transferred to allotment account

28: all allotment monies due were received in cash

June 2010:

10: First call was made

28: monies due on first call were received except for 5 shareholders who had been allotted a

total of 200,000 shares

July 2010

20: First call was made

28: monies due on second and final call were received except for 300,000 shares (including

200,000 On which first call monies were also not received)

August 2010

6: Shares were for feinted for applicant who had failed to pay monies due on both the first and the second and final call.

Those who had not paid the monies due on the second and final call only were issued with notice

13: the forfeited shares were reissued at sh. 14 per share, the money due being received on the same date

The following additional information as at 4 may 2010 is provided:

1. The authorized shares capital of Faiba ltd is 20 million ordinary shares of sh. 20. Per value of 10 Million ordinary shares had been issued and fully paid.
2. The share premium account amounted to sh. 12 million while cash at bank was sh. Million

**Requirement**

1. Journal entries to record the above transaction (10 marks)
2. Extracted from the statement of financial position of Faiba ltd immediately after the issue (4 marks)