

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***SECOND YEAR* *FIRST SEMESTER***

**SCHOOL OF BUSINESS & ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 201**

**COURSE TITLE:** **FINANCIAL ACCOUNTING I.**

**DATE: 11TH JULY 2017 TIME: 8.30\_10.30 AM**

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question **ONE** and any other **THREE** questions
2. *This paper consists of 9 printed pages. Please turn over.*

**QUESTION ONE.**

a) State five reasons why it is necessary for farmers to prepare and keep accounts for farming activities.  **(4 marks)**

b) Briefly explain the following terms as used by insurance companies.

1. Bonus in reduction of premium **(2 marks)**
2. Surrender value **(2 marks)**
3. Consideration for annuities granted **(2 marks)**
4. Commission on reinsurance ceded. **(2 marks)**
5. Briefly explain the following terms as used in the accounts of professional practitioners:
6. Office account **(2 marks)**
7. Client account **(2 marks)**
8. Costs charged to clients **(2 marks)**
9. Work-in-progress. **(2 marks)**
10. Dumu Ltd took from Weta Ltd a lease of a Titanium field to extract titanium for a period of 8 years commencing 1st January 2008 on a royalty of Sh.30,000 per ton of titanium extracted. The output in the first three years of the lease was as follows:

2008: 250 Tonnes

2009: 410 Tonnes

2010: 870 Tonnes

**Required:** Make entries in royalties and landlord accounts in the books of Dumu Ltd. **(5 marks)**

**QUESTION TWO.**

The following balances were extracted from the books of Eco bank Ltd. on 31st December 2016.

|  |  |
| --- | --- |
|  | **Sh.’000’** |
| Government securities  Loans and advances to customers  Cash and balances with Central bank  Other money market placements  Property, plant and equipment  Interest on loans and advances  Interest on Government securities  Foreign exchange income  Fees and commissions income  Deposits with other banks  Other fixed assets  Interest on placement and bank balances  Non-operating income  Customers deposits  Deposits and balances due to other banks  Depreciation expense  Directors emoluments  Bad and doubtful debts expense  Interim dividends paid  Staff costs  Interest on customers deposits  Interest on borrowed funds  Ordinary share capital  Auditors remuneration  Contribution to staff provident fund  Loss on sale of fixed assets  General administration expenses  Reserves  Legal and professional fees. | 1,172,000  2,973,200  628,500  17,300  504,000  435,400  238,200  72,000  170,200  115,000  32,000  36,000  17,000  4,240,000  215,000  42,000  12,500  34,000  25,000  295,000  115,000  35,000  250,000  3,500  14,500  21,800  142,500  529,000  20,000 |

**Additional information:**

1. Current tax has been estimated at Sh.120,000,000

2. Final dividends have been proposed at 10%.

3. Accrued interest expense on customers’ deposits at 30 June 2001 was Sh.30,000,000.

4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 31st December 2016.

**Required:**

a) Comprehensive income statement of the bank for the year ended 31st December 2016. **(10 marks)**

b) statement of the financial position as at 31st December 2016. **(5 marks)**

**QUESTION THREE**

The following is the trial balance of Ensda Farm Ltd as at 31 December 2016:

|  |  |  |
| --- | --- | --- |
|  | **Sh.’000’** | **Sh.’000’** |
| Ordinary share capital  Share premium  Land and buildings  Farm machinery  Sundry debtors  Cash in hand  Loan (crop)  Retained profits  Bank overdraft  Provision for depreciation: Farm machinery  Sundry creditors  Stocks on 1 January 2016:  Growing crops, wheat, seeds and fertilizers  Livestock  Farm labor  Salaries and wages:  Manager  Farm labor  Office expenses  Crop expenses  Livestock expenses  Livestock purchases  Purchase of feeding materials  Farmhouse expenses  Staff meals  Repairs to machinery  Interest on loan  Tools and implements  Sales of wheat  Sales of livestock  Manager’s account | 4,500  2,200  580  320  180  280  105  120  110  280  210  250  670  120  25  10  30  40  120  \_\_\_\_\_ | 5,000  400  800  500  120  440  300  1,050  1,500  40 |
|  | 10,150 | 10,150 |

Additional information:

1.On 31 December 2016, the value of stocks was as given below:

|  |  |
| --- | --- |
|  | **Sh.’000’** |
| Livestock  Feeding materials  Growing crops, wheat, seeds and fertilizers  Tools and implements | 240  130  20  100 |

2. Depreciation on tools and implements is apportioned equally between livestock and crop activities.

3. Farm machinery is depreciated at the rate of 5% per annum on cost.

4. Manager’s salary and staff meals should be divided between livestock and crop activities in the ratio 3:2 respectively.

**Required:**

1. Livestock account for the year ended 31 December 2016. **(5 marks)**
2. Crop account for the year ended 31 December 2016. **(5 marks)**
3. Balance sheet as at 31 December 2016. **(5 marks)**

**QUESTION FOUR.**

The following information has been extracted from the accounts of Nasa Investments Ltd. for the year ended 31 December 2016 and the figures for the previous year are also given.

Profit statement for the year ended 31 December

|  |  |  |
| --- | --- | --- |
|  | 2016 | 2015 |
|  | Sh. `000' | Sh'000' |
| Sales | 115,200 | 72.000 |
| Cost of goods sold | 70 800 | 42,000 |
| Gross profit | 44,400 | 30,000 |
| Less: Trading expenses | 19 800 | 16,200 |
|  | 24,600 | 13,800 |
| Less: Debenture interest | 900 | 900 |
| Net profit before taxation | 23,700 | 12,900 |
| Less: Corporation tax | 11 520 | 5.760 |
| Net profit after taxation | 12.180 | 7.140 |
| Less: Ordinary share dividend | 6.300 | 4,500 |
| Undistributed profit for the year | 5,880 | 2,640 |

**Balance sheet as at 31 December**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2016 |  | 2015 |  |
|  | Sh.'000' | Sh.'000' | Sh.'000' | Sh.'000' |
| Non-current assets (cost) |  | 44.400 |  | 33.600 |
| Depreciation |  | 9000 |  | 7,200 |
|  |  | 35,400 |  | 26,400 |
| Current assets: |  |  |  |  |
| Stock | 19,800 |  | 14,400 |  |
| Debtors | 12,600 |  | 9.000 |  |
| Cash | - | 32 400 | 2,880 | 26,280 |
| Less: Current liabilities: |  |  |  |  |
| Creditors | 7,200 |  | 5.220 |  |
| Taxation | 11,520 |  | 5,760 |  |
| Proposed dividends | 6,300 |  | 4,500 |  |
| Bank overdraft | 2,340 | (27,360) | - | (15,4800 |
| Net assets |  | 40 440 |  | 3 7,.200 |
| Financed by: |  |  |  |  |
| Ordinary share capital |  |  |  |  |
| (Sh.25 per share) |  | 18,000 |  | 18,000 |
| Undistributed profits |  | 16 080 |  | 10,200 |
|  |  | 34,080 |  | 28.200 |
| Long-tern loan: |  | 6 360 |  | 9.000 |
| 10% debentures (secured) |  | 40 440 |  | 37 200 |

**Required:**

1. Compute for both 2016 and 2015 the following ratios (10 arks)
2. Gross profit to sales ratio
3. The markup ratio
4. Net profit to sales ratio
5. Return on capital employed
6. The current ratio
7. Comment on Nasa Investment's liquidity and the profitability position. **(2 marks)**
8. State three limitations of financial ratios. **(3 marks)**

**QUESTION FIVE.**

Pan African Insurance Company Ltd engages in general insurance business. The following trial balance was extracted from its books as at 31st 2016.

|  |  |  |
| --- | --- | --- |
| Trial balance as at 31st December 2016 |  | |
|  | **Sh.’000’** | **Sh.’000’** |
| Direct premiums received:  Marine  Fire  Re-insurance premium received:  Marine  Fire  Re-insurance premium paid:  Marine  Fire  Sundry debtors  Bank balance and cash in hand  Unearned premium as at 1st Jan. 2016:  Marine  Fire  Claims outstanding as at 1st Jan. 2016:  Marine  Fire  Claims paid:  Marine  Fire  Legal costs incurred on claims:  Marine  Fire  Survey expenses relating to claims:  Marine  Bad debts:  Marine  Fire  Investment in shares  Freehold property  Motor vehicles (net book value)  Machinery and equipment (NBV)  Furniture (net book value)  Audit fees  Directors’ fees  Depreciation of fixed assets | 800  500  730  110  2,470  1,800  180  130  320  170  120  1,400  4,200  3,500  1,500  1,300  240  495  905 | 4,500  3,500  1,200  800  4,800  2,500  800  540 |
| Management expenses:  Marine  Fire  Sundry creditors  Investment income  Ordinary share capital  Share premium  Profit and loss a/c balance as at 1st Jan. 2016  Premiums outstanding – 1st Dec. 2016:  Marine  Fire | 650  580  800  700 | 330  280  3,000  1,000  450  \_\_\_\_\_ |
|  | 23,700 | 23,700 |

Additional information:

|  |  |
| --- | --- |
| 1. | Premiums outstanding as at 31st December 2016 amounted to Sh.1,500,000 and Sh.700,000 for marine insurance and fire insurance respectively. |
| 2. | Claims intimated and outstanding as at 31st December 2016 amounted to Sh.750,000 for marine insurance and Sh.480,000 for fire insurance |
| 3. | Unearned premium (reserve for unexpired risk) is maintained at 100% and 50% of the net premium for marine insurance and fire insurance respectively. |
| 4. | Commission on both the re-insurance ceded 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 31st December 2016 |
| 6. | The tax rate applicable is 30%. |

**Required:**

1. Revenue accounts for both marine and fire insurance for the year ended 31st December 2016. **(6 marks)**

b) Profit and loss account for the year ended 31st 2016. **(3 marks)**

c) Balance sheet as at 31 March 2016. **(6 marks)**

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