

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 securitiesLoans and advances to customersCash and balances with Central bankOther money market placementsProperty, plant and equipmentInterest on loans and advancesInterest on Government securitiesForeign exchange incomeFees and commissions incomeDeposits with other banksOther fixed assetsInterest on placement and bank balancesNon-operating incomeCustomers depositsDeposits and balances due to other banksDepreciation expenseDirectors emolumentsBad and doubtful debts expenseInterim dividends paidStaff costsInterest on customers depositsInterest on borrowed fundsOrdinary share capitalAuditors remunerationContribution to staff provident fundLoss on sale of fixed assetsGeneral administration expensesReservesLegal and professional fees. | 1,172,0002,973,200628,50017,300504,000435,400238,20072,000170,200115,00032,00036,00017,0004,240,000215,00042,00012,50034,00025,000295,000115,00035,000250,0003,50014,50021,800142,500529,00020,000 |

**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 capitalShare premiumLand and buildingsFarm machinerySundry debtorsCash in handLoan (crop)Retained profitsBank overdraftProvision for depreciation: Farm machinerySundry creditorsStocks on 1 January 2016: Growing crops, wheat, seeds and fertilizers Livestock Farm laborSalaries and wages: Manager Farm laborOffice expensesCrop expensesLivestock expensesLivestock purchasesPurchase of feeding materialsFarmhouse expensesStaff mealsRepairs to machineryInterest on loanTools and implementsSales of wheatSales of livestockManager’s account | 4,5002,20058032018028010512011028021025067012025103040120\_\_\_\_\_ | 5,0004008005001204403001,0501,500 40 |
|  | 10,150 | 10,150 |

Additional information:

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

|  |  |
| --- | --- |
|  | **Sh.’000’** |
| LivestockFeeding materialsGrowing crops, wheat, seeds and fertilizersTools and implements | 240130 20100 |

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 FireRe-insurance premium received: Marine FireRe-insurance premium paid: Marine FireSundry debtorsBank balance and cash in handUnearned premium as at 1st Jan. 2016: Marine FireClaims outstanding as at 1st Jan. 2016: Marine FireClaims paid: Marine FireLegal costs incurred on claims: Marine FireSurvey expenses relating to claims: MarineBad debts: Marine FireInvestment in sharesFreehold propertyMotor vehicles (net book value)Machinery and equipment (NBV)Furniture (net book value)Audit feesDirectors’ feesDepreciation of fixed assets | 8005007301102,4701,8001801303201701201,4004,2003,5001,5001,300240495905 | 4,5003,5001,2008004,8002,500800540 |
| Management expenses: Marine FireSundry creditorsInvestment incomeOrdinary share capitalShare premiumProfit and loss a/c balance as at 1st Jan. 2016Premiums outstanding – 1st Dec. 2016: Marine Fire | 650580800 700 | 3302803,0001,000450\_\_\_\_\_ |
|  | 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)**

**-END-**