

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF EDUCATION**

**(SCHOOL BASED)**

**COURSE CODE: BBM 201**

**COURSE TITLE: FINANCIAL ACCOUNTING 1**

**DATE: 30TH APRIL 2016 TIME: 8.30-10.30 AM**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of 6 printed pages. Please turn over.*

**QUESTION ONE**

a) Differentiate between authorized share capital and issued share capital.

**(4 marks)**

b) The following trial balance was extracted from the books of Naman account as at 31st December 2015.

**Particulars Debit Credit** Ordinary shares of Ksh. 20 each 30,000,000 Share premium 2,100,000 Profit and loss account 6,430,000 Motor vehicle (cost 6,000,000) 3,600,000 Freehold property 18,000,000 Purchase and sales 80,276,000 121,492,000 Goodwill 3,500,000 Provision for bad debts 300,000 Bad debts 400,000 10% Bank loan 6,000,000 Loan interest accrual 900,000 Debtors and creditors 18,700,000 7,290,000 Rent receivable 1,000,000 Motor vehicle expenses 930,000 General expenses 5,266,000 Bank 6,188,000 Salaries and wages 21,872,000 Rates and insurance 794,000 Opening stocks 15,986,000  **175,512,000 175,512,000 Additional information**  i. Closing stocks were valued at Ksh. 16,850,000. ii. Provision for bad debts is to be increased to Ksh. 450,000. iii. Accrued salaries Ksh. 120,000 which prepaid rates and insurance Ksh. 180,000. iv. Rent receivable of Ksh. 1,000,000 includes Ksh. 200,000 in respect of the period 1/1/2015. v. Depreciation motor vehicle at cost at the rate of 20% p.a. vi. Interest on bank loan is yet to be paid. vii. Co-operation tax for the year is estimated to be Ksh. 3,575,000. viii. The director proposed:- - A sum of Ksh. 2,000,000 be transferred to General Reserve Account. - Ordinary dividend of Ksh. 2 per share be paid.

**Required:**  i. Trading profit and loss appropriation account for the year ended 31

**(8 marks)**

ii. Balance sheet as at the same date.  **(8 marks)**

c) Explain the advantages of using ratio in business management (5 marks)

**QUESTION TWO** The following is a summary of the Trading Profit and Loss appropriation account and Balance sheet of Kakamega Trading Ltd for the year ended 31 December, 2015. **Trading profit & loss**  Ksh Ksh Sales 5,000,000 Cost of sales 3,200,000 Gross profit 1,800,000 Operating expenses 700,000 Net profit 1,100,000 Less debenture interest 160,000 Profit before taxation 940,000 Corporation tax 330,000  **610,000**  Ordinary share dividend 10,000  **Retained earnings 600,000**

**Balance Sheet Fixed assets**  Building 1,200,000 Furniture 700,000 Motor vehicle 1,100,000 **3,000,000 Current assets**  Stock 2,500,000 Debtors 800,000 Bank 400,000 **3,700,000 6,700,000**

**Financed by:**  Ordinary share capital (per value sh 20) 2,000,000 10% debenture 1,600,000 Retained earnings 600,000  **4,200,000**  Current liabilities Creditors 2,000,000 Corporation tax 330,000 Proposed dividends 10,000 Accrued expenses 160,000

**2,500,000**   **6,700,000**

The market price of ordinary share is sh 25 Required: Calculate the following financial ratios: -Current and quick ratios **(4 marks)** -Net and gross profit ratios **(4 marks)** -Creditors and debtors turn over ratios (**4 marks)** -Return on capital employed (ROCE) (**2 marks)** -Debt equity ratio **(2 marks)** -Dividend per share (**2 marks)** -Dividend yield **(1 marks)**

**QUESTION THREE** Prepare the farm accounts from the information given below. **(15 marks)**

**Opening stock closing stock Shs shs** Crops 20,000 25,000 Growing crops 15,000 22,500 Seeds 10,000 12,500 Cattle 375,000 525,000 Cattle food 50,000 27,500 Poultry 45,000 67,500 Poultry food 5,000 10,000 Fish 10,000 16,000 Fertilizers 25,000 15,000

**Purchases during the year Shs** Poultry 75,000 Seeds 7,500 Cattle 200,000 Fish 5,000 Cattle food 70,000 Fertilizers 17,500 Poultry food 15,000 **Sales during the year Shs** Butter 7,500 Milk 45,000 Eggs 65,000 Crops 105,000 Flowers 7,500 Fruits 20,000 Cattle 180,000 Poultry 70,000 Fish 30,000 Vegetables 25,000 **Expenses during the year Shs** Wages 117,500 Insurance 7,500 Depreciation 10,000 Repairs 6,000 Consumption during the year **Shs**  Butter 2,000 Milk 12,500 Eggs 2,500 Vegetables 3,000 Poultry 1,000 Fish 500 Fruits 1,500

**QUESTION FOUR**

A, B and C were in partnership sharing profit and losses in the ration of 4:3:1 as at 31st December 2012. Their balance sheet on that date was as follows.

|  |  |
| --- | --- |
| assets | Capital and liabilities |
| Building 250,000  Furniture 90,000  Plan and machinery 80,000  Motor vehicle 180,000  Stock 120,000  Debtors 95,000  Bank 60,000 | Capital accounts  A 100,000  B 80,000  C 70,000  Creditors 290,000  Bills payable 170,000  Loan from D 85,000  Reserves 80,000 |
| 875,0000 | 875,000 |

On 1st January 2008 C retired and D was admitted to the partnership on the following conditions.

i) D was to bring in 80,000/= as capital which was to be set off against his loan to the partnership. The balance of the loan to be paid to D.

II) C capital to be kept in the firm.

iii) Goodwill to be valued at 120,000 then be written off.

iv) Assets and liabilities were to be revalued as follows.

Building 290,000, furniture 100,000, plant 50,000, motor vehicle 165,000, stock 100,000, creditors 300,000, bills payable 160,000.

v) New profit sharing rations 3:2:1 for A, B and C respectively.

**Required**

1. Revaluation account **[4 marks]**
2. Partnership capital accounts  **[ 4 marks]**
3. Bank and goodwill account [ **3 marks]**
4. Balance sheet after the admission of D. **[ 4 marks]**

**QUESTION five**

a) Discuss any five the limitations of accounting **[ 5 marks]**

b) Differentiate between dissolution and reconstitution of a partnership.

**[ 5 marks]**

c) Distinguish between a receipt and expenditure account and an income and expenditure account in accounting for professional bodies **( 5 marks )**

**………………………………………………..END…………..…………………………………………..**