



GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR TWO
SECOND SEMESTER EXAMINATION**

SUPPLEMENTARY/SPECIAL 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: 3 HOURS

DATE: 26/09/17

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) 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 TWELVE (12) printed pages

please turn over



QUESTION ONE (COMPULSORY)

(a) Briefly explain the following terms as used in the accounts of professional practitioners:

- i. Office account [1 marks]
- ii. Client account [1 marks]
- iii. Costs charged to clients [1 marks]
- iv. Work-in-progress [2 marks]

(b) The following balances were extracted from the books of Exotic Marine Insurance Company Ltd. on 30 April 2016.

	Sh.
Premium less re-insurance	14,791,500
Commission on direct business	660,000
Commission on re-insurance ceded	78,000
Commission on re-insurance accepted	57,000
Depreciation	96,000
Loss on sale of investment	150,000
Claims paid less re-insurance	7,560,000
Claims recovered under re-insurance not adjusted	300,000
Directors remuneration	450,000
Interest and dividends (net) not relating to any fund	412,500
Reserves for unexpired risk on 1 May 2015	11,700,000
Additional reserve on 1 May 2015	1,170,000
Claims outstanding on 1 May 2015	567,000



Claims outstanding on 30 April 2016	687,000
Tax deducted from interest and dividends	120,000
Salaries	960,000
Rent and rates	87,000
Postage and stationery	129,000
Surveyors and legal fees for settlement of claims	300,000
Profit and loss appropriation account 1 May 2015	2,925,000

The following additional information is available:

1. Reserves for unexpired risks to be maintained at 100% of the net premium income.
2. Additional reserves of 10% on the said premium are also to be maintained.
3. Provision for taxation to be made for the year Sh. 912,450
4. Investment reserve to be increased by Sh. 225,000.

Required:

- i. Revenue account for the year ended 30 April 2016. **[12 marks]**
- ii. Comprehensive Income Statement for the year ended 30 April 2016 **[8 marks]**

QUESTION TWO

The following balances were extracted from the books of Pesa Commercial Bank Ltd. on 30 June 2016.

	Sh. '000'
Government securities	1,172,000
Loans and advances to customers	2,973,200
Cash and balances with Central bank	628,500
Other money market placements	17,300
Property, plant and equipment	504,000



Interest on loans and advances	435,400
Interest on Government securities	238,200
Foreign exchange income	72,000
Fees and commissions income	170,200
Deposits with other banks	115,000
Other fixed assets	32,000
Interest on placement and bank balances	36,000
Non-operating income	17,000
Customers deposits	4,240,000
Deposits and balances due to other banks	215,000
Depreciation expense	42,000
Directors emoluments	12,500
Bad and doubtful debts expense	34,000
Interim dividends paid	25,000
Staff costs	295,000
Interest on customers' deposits	115,000
Interest on borrowed funds	35,000
Ordinary share capital	250,000
Auditors remuneration	3,500
Contribution to staff provident fund	14,500
Loss on sale of fixed assets	21,800
General administration expenses	142,500
Reserves	529,000
Legal and professional fees	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 2016 was Sh.30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 30 June 2016.

Required:

- i. Comprehensive Income Statement for the year ended 30 June 2016. **[10 marks]**
- ii. Statement of Financial Position as at 30 June 2016. **[5 marks]**

QUESTION THREE

- (a) The following statements of financial position were extracted from the books of Saka Ltd. As at 30 June 2015 and 2016:

	2015	2016
	Sh. '000'	Sh. '000'
Non-current assets:		
Cost	85,000	119,000
Accumulated depreciation	<u>(26,000)</u>	<u>(37,000)</u>
	59,000	82,000
Current assets:		
Inventories	34,000	40,000
Trade receivables	26,000	24,000
Cash at bank	<u>10,000</u>	<u>14,500</u>



	<u>70,000</u>	<u>77,500</u>
Total assets	<u>129,000</u>	<u>159,500</u>

Equity and liabilities:

Capital and reserves:

Ordinary share capital (Sh.100 per value)	26,000	28,000
Share premium	12,000	13,000
Retained earnings	<u>31,000</u>	<u>53,500</u>
	69,000	94,500

Non-current liability:

10% debentures	20,000	10,000
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2015

2016

Sh. '000'

Sh. '000'

Current liability

Trade payables	15,000	23,000
Taxation	12,000	15,000
Dividends	<u>13,000</u>	<u>17,000</u>
	<u>40,000</u>	<u>55,000</u>
Total equity and liabilities	<u>129,000</u>	<u>159,500</u>



Additional Information:

1. There were no disposals of non-current assets during the year ended 30 June 2016.
2. Sh.10 million of the 10% debentures were redeemed on 31 December 2015.
3. During the year ended 30 June 2016, a dividend of Shs. 17,000,000 was proposed.
4. Taxation for the year ended 30 June 2016 was agreed at Shs. 15,000,000.

Required:

Cash flow statement for the year ended 30 June 2016, in accordance with the requirements of IAS 7 (Cash Flow Statements). **[15 marks]**

QUESTION FOUR

The following information is obtained from Mzee Kavuyo on his farming activities for the year ended 31 March 2017:

	Opening stock	Closing stock
	Shs.	Shs.
Crops	30,000	37,500
Group crops	22,500	33,750
Seeds	15,000	18,750
Cattle	562,500	787,500
Cattle food	75,000	41,250
Poultry	67,500	101,250
Poultry food	7,500	15,000
Fish	15,000	24,000
Fertilizers	37,500	22,500

Purchases during the year:



Poultry	112,500
Seeds	11,250
Cattle	300,000
Fish	7,500
Cattle food	105,000
Fertilizers	26,250
Poultry food	22,500
Sales during the year:	
Butter	11,250
Milk	67,500
Eggs	97,500
Crops	157,500
Flowers	11,250
Fruits	30,000
Cattle	270,000
Poultry	105,000
Fish	45,000
Vegetables	37,500
Expenses during the year:	
Wages	176,250
Insurance	11,250
Depreciation	15,000
Repairs	9,000
Consumption of farm products by proprietor:	
	Sh.
Butter	3,000
Milk	18,750



Eggs	3,750
Vegetables	4,500
Poultry	1,500
Fish	750
Fruits	2,250

Required:

From the information given above, prepare the following accounts for Mzee Kavuyo for the year ended 31 March 2017:

- | | | |
|------|-----------------------------|-----------|
| i. | Crop account; | [3 marks] |
| ii. | Dairy account; | [3 marks] |
| iii. | Poultry account | [3 marks] |
| iv. | Fishing account; | [3 marks] |
| v. | Summarized Income Statement | [3 marks] |

QUESTION FIVE

You have been provided with the following summarized accounts of Garissa Times Ltd. For the year ended 31 March 2016:

Statement of Financial Position as at 31 March 2016

Fixed assets:	Sh.	Sh.	Sh.
Freehold property (Net book value)			480,000
Plant and machinery (Net book value)			800,000
Motor vehicles (Net book value)			200,000
Furniture and fittings (Net book value)			<u>200,000</u>
			1,680,000

Current Assets:



Stocks			1,000,000
Debtors			400,000
Investments			<u>120,000</u>
			1,500,000
Current liabilities:			
Trade creditors	238,400		
Bank overdraft	878,400		
Corporation tax	176,000		
Dividends payable	<u>107,200</u>	<u>(1,400,000)</u>	<u>120,000</u>
			<u>1,800,000</u>
Financed by:			
Authorised share capital – 800,000			
Sh.1 ordinary shares			400,000
Issued and fully paid: 400,000 Sh.1 Ordinary shares			200,000
			800,000
Capital reserve			
Revenue reserve			<u>400,000</u>
Loan capital: 400,000 10% Sh.1 Debentures			<u>1,800,000</u>

Comprehensive Income statement for the year ended 31 March 2016

	Sh.
Sales (credit)	<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000
	<u>40,000</u>
Less: debenture interest	400,000
Profit before tax	



Corporation tax	<u>176,000</u>
	224,000
Less: ordinary dividend proposed	<u>107,200</u>
Retained profit transferred to revenue reserve	<u>116,800</u>

The following additional information was available:

1. The purchases for the year were Sh.2,160,000 while the cost of sales was Sh.3,000,000.
2. The market price for Golden Times Ltd. Ordinary shares as at 31 March 2016 was Sh.5
3. The company estimates the current value of its freehold property at Sh.1,100,000.

Required:

(a) Compute the following ratios for Golden Times Ltd.:

- | | | |
|-------|---|------------------|
| i. | Return on capital employees | [1 mark] |
| ii. | The profit margin | [2 marks] |
| iii. | The turnover of capital | [2 marks] |
| iv. | Current ratio; | [1 mark] |
| v. | Liquid ratio; | [2 marks] |
| vi. | Number of days accounts receivable are outstanding; | [1 mark] |
| vii. | Property ratio; | [2 marks] |
| viii. | Stock turnover ratio; | [1 mark] |
| ix. | Dividend yield ratio; | [1 mark] |
| x. | Price earnings ratio | [2 marks] |



QUESTIONSIX

(a) Write short notes on the following terms commonly used in banking:

- i. Money at call and short notice; [2 marks]
- ii. Cash credit; [2 marks]
- iii. Overdraft; [2 marks]
- iv. Discounting of bills; [2 marks]
- v. Bills of collection [2 marks]

(b) Briefly explain the salient characteristics of farm accounting. [5 marks]

