



MUEO

MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: **BBM 213**

COURSE TITLE: **FINANCIAL ACCOUNTING I**

DATE: 7TH DECEMBER, 2018

TIME: 2.00 PM - 5.00 PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

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BBM 213: FINANCIAL ACCOUNTING 1**MAIN EXAMINATIONS**

Instructions: Answer question *ONE* and any other *THREE*.

QUESTION ONE

- a). Briefly explain the objectives and scope of IAS 7 (Cash Flow Statements). (5 marks)
b) Discuss five importance of cash flow statement. (5 marks)
c) The authorized ordinary share capital of Safco Ltd is 100,000 shares of shs. 1 each. The following trial balance was extracted from its books for the year ended 31st December 2017.

	Kshs	kshs
Ordinary Share Capital, Issued		80,000
Free hold premise at cost.....	59,000	
Motor vans (cost) as at 1/1/2017.....	15,000	
Motor vans additions less sale proceeds.....	650	
Provision for depreciation for motor vans		
To 31 st December 2017.....		6,750
Stock in trade as at 1/1/2017.....	13,930	
Balance at bank	6,615	
Provision for doubtful debts 1/1/2017.....		275
Trade debtors and creditors.....	12,395	11,380
Directors remuneration.....	4,000	
Salaries and wages	13,127	
Motor and delivery expenses.....	3,258	
Rates	700	
Purchases and sales.....	108,440	142,770
Legal expense	644	
General expense	5,846	
Retained earnings for the year ending		
31 st December 2016.....		<u>2,430</u>
	<u>243,605</u>	<u>243,605</u>

Additional information;

- Stock in trade, 31 December 2017, kshs14,600.
- Rates paid in advance, 31 December 2017, kshs140.
- Debts of kshs1,075 to be written off and the provision to be increased to kshs350.
- On 1 January 2017, a motor van which had cost kshs 680, was sold for kshs 125.

- v. Depreciation provided for this van up to 31 December 2016 was kshs 475.
- vi. Provide for depreciation of motor vans (including additions) at 20% of cost.
- vii. The balance on legal expenses account included kshs 380 in connection with the purchase of one of the freehold properties.
- viii. The directors have decided to recommend a dividend of 5%.

Required:

Prepare income statement and statement of financial position as at 31/12/2017. **(15 marks)**

(Total 25 marks)

QUESTION TWO

a). Leah and kemboi are the shareholders and directors of kencom auto spares ltd, A private company formed in the year 2013 to buy and sale motor vehicle spares. Because of increased demand of their product, they want to covert the company into a public company, to enable them raise additional finance to expand its operations. You are the accountant of kencom auto spares ltd and the directors have asked you to draft a report on methods of public issue.

Required

Write a report to be presented to the directors on methods of public issue. **(5 marks)**

b). Baraka Ltd., a medium sized trading company, closes its books every 31 March. Given below are the comparative statement of financial of Baraka Ltd. for the years ended 31 March 2017 and 2018.

	31 March 2017		31 March 2018	
	Sh. '000'	Sh. '000'	Sh. '000'	Sh. '000'
Fixed assets				
Building at cost	11,040		13,800	
Accumulated depreciation at Cost	<u>(2,070)</u>	8,970	<u>(2,415)</u>	11,385
Plant and equipment at cost	13,800		23,460	
Accumulated depreciation	<u>(6,210)</u>	7,590	<u>(8,625)</u>	14,835
Motor vehicles at cost	4,600		5,518	
Accumulated depreciation	<u>(2,070)</u>	<u>2,530</u>	<u>(2,932)</u>	<u>2,586</u>
		19,090		28,806
Current assets				
Inventory in trade	4,140		5,175	
Debtors	2,070		2,519	
Cash in hand and at bank	<u>85</u>		<u>-</u>	
	<u>7,060</u>		<u>7,694</u>	
Current liabilities				
Creditors	1,380		2,070	
Taxation	1,725		2,070	
Dividends	1,035		1,035	
Bank overdraft	<u>-</u>		<u>345</u>	
	<u>4,140</u>		<u>5,520</u>	
		<u>2,920</u>		<u>2,174</u>
		<u>22,010</u>		<u>30,980</u>

Financed by:

Ordinary share capital	15,800	22,700
Share premium	1,380	2,760
Retained profits	3,450	5,520
10% debentures	<u>1,380</u>	<u>-</u>
	<u>22,010</u>	<u>30,980</u>

The following is an extract from the income statement for the year ended 31 march 2018:

		Sh.
		'000'
Profit before taxation		6,210
Taxation for the year		<u>(2,451)</u>
		3,795
Dividends for the year:		
Interim – paid	690	
Final – proposed	<u>1,035</u>	<u>(1,725)</u>
Retained profit for the year		<u>2,070</u>

Additional information:

1. An item of plant was disposed of during the year ended 31 march 2018 for Sh. 1,035,000. It had cost Sh. 2,070,000 and had an accumulated depreciation of Sh. 690,000.
2. The 10% debentures were redeemed at a premium of 10% during the year ended 31 march 2018.

Required:

Cash flow statement, in conformity with the requirements of IAS 7 (Cash Flow Statements), for the year ended 31 march 2018.

(10 marks)

(Total 15 marks)

QUESTION THREE

The following balances were extracted from the books of Fedha Commercial Bank Ltd. on 30 June 2017.

	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 2001 was Sh 30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh 150,000,000 at 30 June 2017.

Required:

- (a) Income statement for the year ended 30 June 2017. (8 marks)
 - (b) Statement of financial position as at 30 June 2017. (7 marks)
- (Total 15 marks)**

QUESTION FOUR

- (a). Explain the concept of "self-insurance" and how it works in businesses. (5 marks)
- (b). Jubilation Insurance Company is well known fire risk insurance company having started business in the early 1990's. Its accounts are made up to 31st December each year. The balances below have been extracted from the books of account as at 31 December 2017.

	Shs. '000'
Claims paid	480,000
Outstanding claims 1.1.2017	40,000
Claims intimated and accepted but not paid on 1.12 2017	70,000
Premiums recurred	1,200,000
Re-Insurance premium paid	120,000
Commission	200,000
Commission on re-insurance ceded	4,000
Commission on re-insurance accepted	8,000
Expenses of management	302,000
Provisions for un-expired risk on 1.1.2017	400,000
Additional provision for un-expired risk on 1.1.2017	20,000
Bonus utilized in reduction of premium	12,000
Re-Insurance recoveries of claims	8,000
Medical expenses regarding claims	5,000

Loss on sale for motor car	3,500
Bad debts	2,500
Refund for double taxation	4,500
Interest and dividends	8,000
Income tax deducted thereon	1,500
Legal expenses relating to claims	4,000
Profit on sale of investments	3,500
Rent of staff quarters deducted from salaries	2,400
Depreciation of furniture	4,600

The management would wish to provide for additional reserve for unexpired risk of 1% of the net premium in addition to the opening balance of additional reserve while 40% general reserve for unexpired risk will be maintained.

Required:

Prepare a revenue account in respect of fire insurance business carried out by Jubilation Insurance Co. Ltd for the year ended 31st December 2017.

(10 marks)

(Total 15 marks)

QUESTION FIVE

a). Discuss the importance of ratios in business (5 marks)

b). You have been provided with the following summarized accounts of Golden Times Ltd. For the year ended 31 March 2018:

Balance sheet as at 31 March 2018

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:

Inventory		
Debtors	1,000,000	
Investments	400,000	
	<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:

Authorized share capital – 800,000

Sh.1 ordinary shares

Issued and fully paid: 400,000 Sh.1 Ordinary

shares	400,000
Capital reserve	200,000
Revenue reserve	800,000
Loan capital: 400,000 10% Sh.1 Debentures	<u>400,000</u>
	<u>1,800,000</u>

Profit and loss account for the year ended 31 March 2018

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

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 2018 was Sh.5
3. The company estimates the current value of its freehold property at Sh 1,100,000.

Required:

Using relevant accounting ratios, Comment on Golden Times Ltd. Liquidity stating the reference points to which relevant ratios can be compared.

(10 marks)

(Total 15 marks)

QUESTION SIX

- a) Briefly explain the salient characteristics of farm accounting. (3 marks)
- b) The following trial balance was extracted from the books of Kemboi, a farmer in cheptiret as on 30th June 2018.

Trial balance as on 30 th June 2018		
	DR	CR
Opening Inventory		
Livestock	305,000	
Maize	20,000	
Cattle feed	14,000	
Fertilizers	11,000	
Land	500,000	
Tractor	180,000	
Purchases:-		
Livestock	58,000	
Fertilizer	12,000	
Seeds	6,000	

Cattle feed	34,000	
Sales:-		
Milk		152,000
Maize		263,000
Livestock		45,000
Crop Expenses:		
Labour	36,000	
Other direct expenses	4,000	
Livestock expenses		
Medicines	6,000	
Labour	36,000	
Dairy expenses	8,000	
General expenses	60,000	
Creditors		50,000
Cash in hand	85,000	
Capital		865,000
	<u>1,375,000</u>	<u>1,375,000</u>

Additional Information

i). Closing inventory as at 30th June, 2018

	sh.
Livestock	300,000
Maize	15,000
Cattle feed	9,000
Fertilizer	6,000

(ii). The proprietor has consumed the following items during the year out of his farm output

	sh.
Milk	24,000
Maize	6,000

(iii). Provide 10% depreciation on tractor

Required

a). Prepare trading and profit and loss account for the year ended 30th June, 2018 (6 marks)

b). The statement of financial position as at that date.

(6 marks)

(Total 15 marks)

END