



MUEO

MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS

2021/2022 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: 27TH JULY, 2022

TIME: 2.00 PM-5.00 PM

INSTRUCTION TO CANDIDATES

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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 of farm accounting. **(5 marks)**

b) Discuss the importance ratio analysis in Business Management. **(5 marks)**

c) The following trial balance was extracted from books of Maendeleo Ltd for the year ended 31st December 2021.

	Kshs	kshs
Share Capital, Authorized and issued;		
Ordinary shares of kshs 1 each		80,000
Free hold premise at cost	59,000	
Motor vans (cost) as at 1/1/2021	15,000	
Motor vans additions less sale proceeds	650	
Provision for depreciation for motor vans To 31 st December 2021		6,750
Stock in trade as at 1/1/2021	13,930	
Balance at bank	6,615	
Provision for doubtful debts 1/1/2021		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	108,440	
Sales		142,770
Legal expense	644	
General expense	5,846	
Retained earnings for the year ending 31 st December 2020		<u>2,430</u>
	<u>243,605</u>	<u>243,605</u>

Additional information;

- i. Stock in trade, 31 December 2021, kshs14,600.
- ii. Rates paid in advance, 31 December 2021, kshs140.
- iii. Debts of kshs1,075 to be written off and the provision to be increased to kshs350.
- iv. On 1 January 2018, a motor van which had cost kshs 680, was sold for kshs 125.
- v. Depreciation provided for this van up to 31 December 2020 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:

With particular emphasis on presentation, prepare income statement for the year 2021, and statement of financial position as at 31 December 2021, ignoring taxation. **(15 marks)**

(Total: 25 marks)

QUESTION TWO

Hazina Bank Ltd., a registered commercial bank, prepares its accounts to 30 June each year. The trial balance of the bank as at 30 June 2021 was as follows:

	Sh.'000'	Sh.'000'
Treasury bills	2,344,000	
Loans to customers	5,946,400	
Other money market placements	34,600	
Property, plant and equipment	1,008,000	
Cash and balances with the Central Bank	1,257,000	
Interest on loans		870,800
Interest on treasury bills and bonds		476,400
Foreign exchange income		144,000
Fees and commissions income		340,400
Deposits with other banks	230,000	
Other fixed assets	64,000	
Interest on placements and bank balances		72,000
Non-operating income		34,000
Customers' deposits		8,480,000
Deposits and balances due to other banks		430,000
Depreciation charges	84,000	
Directors emoluments	25,000	
Bad and doubtful debts	68,000	
Interim dividends paid	50,000	
Salaries and wages	590,000	
Interest on borrowed funds	70,000	
Interest on customers deposits	230,000	
Ordinary share capital		500,000
Auditors fees	7,000	

Contribution to staff pension scheme	29,000	
Administrative expenses	285,000	
Loss on sale of fixed assets	43,600	
Reserves		1,058,000
Legal fees	<u>40,000</u>	
	<u>12,405,600</u>	<u>12,405,600</u>

Additional information:

1. Current tax has been estimated at Sh.200,000,000
2. A final dividend of 15% has been proposed.
3. Unrecorded accrued interest expense on customers' deposits at 30 June 2021 was sh.70,000,000.
4. Interest income on loans and advances to customers of Sh.150,000,000 at 30 June 2021 was omitted from the books.

Required:

- (a) Income statement for the year ended 30 June 2021. **(10 marks)**
- (b) Statement of financial position as at 30 June 2021 **(5 marks)**

(These statements should be presented in accordance with IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions). **(Total: 15 marks)**

QUESTION THREE

- a) Briefly explain three reasons why net profit from operating activities differ from cash flow generated from operations. **(5 marks)**
- b) Home marketing ltd sells a single product “wonder home” exclusively through personal marketing. Shown below are comparative income statement and balance sheet for the last two years.

Home baking ltd		
Income statement for the year ended 31st dec 2020 and 2021		
	2020	2021
	Shs ‘000’	shs ‘000’
Sale	500,000	350,000
Less; cost of sales	<u>200,000</u>	<u>140,000</u>
Gross profit on sales	300,000	210,000
Less; operating expenses	260,000	243,000
Loss on sale of marketable securities	<u>0</u>	<u>1,000</u>
Net income/ loss	<u>40,000</u>	<u>(34,000)</u>

Home baking ltd		
Balance sheet for the year ended 31st dec 2020 and 2021		
	2020	2021
	Shs ‘000’	shs ‘000’

	2020	2021
	Shs ‘000’	shs ‘000’

Assets		
Cash and cash equivalent	10,000	60,000
Marketable securities	20,000	5000
Account receivable	40,000	23,000
Inventory	120,000	122,000
Plant and equipment (NBV)	<u>300,000</u>	<u>285,000</u>
	<u>490,000</u>	<u>495,000</u>
Liabilities and shareholders' equity		
Account payable	50,000	73,000
Accrued expense payable	17,000	14,000
Note payable	245,000	253,000
Share capital par. Shs 10	100,000	110,000
Share premium	20,000	25,000
Retained earnings	<u>58,000</u>	<u>20,000</u>
	<u>490,000</u>	<u>495,000</u>

Additional information relating to the year 2021

Early in the year the company declared and paid a total of 4,000,000 as cash dividends

The company purchased plant asset for shs 20,000,000 paying 2,000,000 in cash and issued a note payable for shs 18,000,000 balance.

Required

Cash flow statement in accordance with ISA 7.

(10 marks)

(Total: 15 marks)

QUESTION FOUR

(a) The summarized financial statements of Baraka Enterprises Ltd. are as follows:

Income statement for the year ended 30 September

	2020	2021
	Sh.'000	Sh.'000
Sales	20,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(21,000)</u>
Gross profit	5,000	7,000
Administrative expenses	<u>(3,800)</u>	<u>(4,600)</u>
Debenture interest		<u>(400)</u>
Net profit	<u>1,200</u>	<u>2,000</u>

Balance sheet as at 30 September

	2020	2021
	Sh.'000	Sh.'000
Assets:		
Non-current assets (net book value)	<u>11,000</u>	<u>14,000</u>
Current assets:		
Inventories	2,000	3,000
Trade and other receivables	2,500	2,800
Balance at bank	—	<u>500</u>

	<u>4,500</u>	<u>6,300</u>
Total assets	<u>15,500</u>	<u>20,300</u>
Equity and liabilities:		
Capital and reserves:		
Issued and fully paid		
1,000,000 ordinary shares of Sh.10 each	10,000	10,000
Revenue reserves	<u>3,000</u>	<u>4,100</u>
	<u>13,000</u>	<u>14,100</u>
Non current liabilities		
8% debentures	-	5,000
Current liabilities		
Trade and other payables	1,500	1,200
Bank overdraft	<u>1,000</u>	-
	<u>2,500</u>	<u>1,200</u>
Total equity and liabilities	<u>15,500</u>	<u>20,300</u>

Stock as at 1 October 2019 was Sh.5,000,000

Required:

For each year, calculate the following:

- | | |
|-------------------------|-----------|
| (a) Gross profit margin | (2 marks) |
| (b) Inventory turnover | (2 marks) |
| (c) Return on equity | (2 marks) |
| (d) Return on assets | (2 marks) |
| (e) Acid test ratio | (2 marks) |
| (f) Current ratio | (2 marks) |
| (g) Financial leverage | (2 marks) |

- (b) Comment on the liquidity position of the company giving possible reasons for the change. (1 marks)

(Total: 15 marks)

QUESTION FIVE

The following trial balance was extracted from the books of ABC farm as on December 31, 2021.

<u>TRIAL BALANCE AS ON 31.12.2021</u>		
	DR	CR
Opening stock		
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

(1) Closing stocks as at 31 December, 2021	sh.
Livestock	300,000
Maize	15,000
Cattle feed	9,000
Fertilizer	6,000

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

	sh.
Milk	24,000
Maize	6,000

(3) Provide 10% depreciation on tractor

Required

Prepare trading and profit and loss account for the year ended 31st December, 2021 and Statement of financial position as at that date. **(10 marks)**

(Total: 15 marks)

QUESTION SIX

(a). Explain the concept of “self-insurance” and how it works in businesses. **(5 marks)**

(b). Explain the following terms as used in royalty accounts.

i. minimum rent **(3 marks)**

- ii. short workings
- iii. recoupment of short workings

(3 marks)
(4 marks)

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