



MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR
(ACADEMICS, RESEARCH, EXTENSION & STUDENT AFFAIRS)

UNIVERSITY EXAMINATIONS 2022/2023 ACADEMIC YEAR SECOND YEAR SECOND SEMESTER EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 223

COURSE TITLE: FINANCIAL ACCOUNTING II

DATE: 15TH DECEMBER, 2022 **TIME:** 2.00 P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

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BBM 223: FINANCIAL ACCOUNTING II

MAIN EXAMINATION

INSTRUCTIONS: -

ANSWERS QUESTION ONE AND ANY OTHER THREE QUESTIONS: - (QUESTION ONE (25Mks)

QUESTION ONE

- a) Discuss the provisions of IAS 8 on Accounting policies, changes in accounting estimates and errors in relation to preparation and presentation of financial statements (10 mrks)
- b) On 12th June, 2020 fire occurred in the premises Mr. X (insured). Most of the stocks were destroyed, cost of stock salvaged being ksh 1,120,000. From the books of accounts, the following Particulars were available:
- (i) His stock at the close of account on December 31st, 2019 was valued at ksh 835,000.
 - (ii) His purchases from 1-1-2020 to 12-6-2020 amounted to ksh 11,200,000 and his sales during that period amounted to ksh 15,400,000.

On the basis of his accounts for the past three years it appears that he earns on an average a gross profit of 30% of sales.

Required

- a) Compute the amount of his insurance claim (5 mrks)
- b) Assuming some stock was salvaged in the damaged condition and its value in that condition was agreed at ksh 1,050,000. and that Mr. X had insured his stock for ksh 6,000,000:
- i) Compute the value of claim to be lodged for the loss of stock as on 12-6-2020 (5 mrks)
 - ii) Calculate the amount of claim based on average clause (5 mrks)

(Total: 25 marks)

QUESTION TWO

Harry, Peter and Jane were in partnership sharing profits and losses in the ratio 3:2:1. Their statement of financial position as on 31st December 2019 was as follows:

Harry, Peter and Jane

Statement of Financial Position as at 31st December 2019

<u>Assets</u>	ksh
Furniture and Fittings	130,000
Stock.....	220,000
Debtors.....	180,000
Bills Recievable.....	40,000
Cash at Bank.....	<u>30,000</u>
	<u>600,000</u>

Financed by

Capital accounts

Harry-	150,000	
Peter.....	150,000	
Jane.....	<u>100,000</u>	400,000
S loan a/c		50,000
Creditors		<u>150,000</u>
		<u>600,000</u>

The bills recievable were accepted on 1st November 2019, payable after 3 months which were duly honoured on due date.

On 1st January 2020 the firm was dissolved .The assets realized and expenses were as follows :

<u>Date</u>	<u>stock</u>	<u>Debtors....</u>	<u>furniture &Fittings</u>	<u>Bills. R</u>	<u>Expenses</u>
	Sh	sh	sh	sh	sh
Jan 31	50,000	40,000.....	50,000	-	3000
Feb 28	40,000	50,000	-	40,000	5,000
March 31	80,000	60,000	60,000	-	4,000
April 30	20,000	25,000	10,000	-	3000

Required:

- i) Astatement showing distribution of cash using maximum possible loss method (10 mrks)
- ii) Bank account (5 mrks)

(Total: 15 marks)

QUESTION THREE

- a) ABC & Co. of Nairobi has a branch in Kitale. Goods are sent by the head office at invoice price which is at a profit of 20% on cost price. All expenses of the branch are paid by the head office. The following information is provided in respect of Kitale Branch in the books of the head office. (goods are shown at an invoice price).

Opening balances:	(ksh,000)
Stock at invoice price	11,000
Debtors	1,700
Petty cash	100
Goods sent to branch at invoice price	20,000
Expenses made by head office:	
Rent	600
Wages	200
Salary, etc.	900
Remittances made to head office:	
Cash sales	2,650
Cash collected from debtors	21,000
Goods returned by branch at invoice price	400
Balances at the end:	
Stock at invoice price	13,000
Debtors at the end	2,000
Petty cash	25

Required

Kitale Branch account in the books of H/O

(10 mrks)

- b) Clearly explain the rule in Garner Vs Murray (1903) under insolvency of partnership citing the two stated implications

(5Mks)

(Total: 15 marks)

QUESTION FOUR

The following trial balance was extracted from the books of ALPHA Ltd as at 31st December 2018.

Trial Balance

	Sh 000	sh 000
Share capital (Authorized and issued)		
250,000 ordinary shares of sh 20 each		500,000
5,000 6% preference shares of sh 20 each		100,000
Share premium account		120,000
Stock as at 31 st December 2018 (at cost)	392,800	
Bank balance	109,100	
Creditors		149,700
7% debentures		120,000
Debtors	210,000	
Discount on debentures	4,800	
Directors salaries	94,000	
Furniture and fittings	178,000	
Goodwill	100,000	
Gross profit on trading		599,000
Equipment at cost	450,000	
Equipment disposal account		7,000
Provision for depreciation of equipment's		146,000
Preliminary expenses	8,700	
Retained profit 31/12/2017		140,600
Rent salaries and expenses	334,900	
	1,882,300	1,882,300

Additional information:-

- i) A provision for doubtful debts to be created equal to 4% of debtors.
- ii) Provision is to be made for income tax at 40% on chargeable profit of sh 84,000 per year to December 2018.

- iii) On 1st Jan 2018 an equipment which cost sh 30,000,000 on 1st Jan 2014 was sold for sh 7,000,000. Entries for this amount have been made to bank and equipment disposal account but no entries were made in 2018 in relation to this equipment. Depreciation is provided on equipment at 20% of cost but no amount has been provided for the current year.
- iv) The debentures were issued on 31st December 2018 but no interest had accrued. They are secured on all assets of the company.
- v) Those items which the law permits to be charged against share premium account are to be written off out of the balance of that account.
- vi) The directors have proposed a dividend of 5% on ordinary share capital and 6% on preference share capital for year 2018.
- vii) A customer is suing the company for breach of contract and is claiming Ksh 80,000.000 damages. This amount has not been provided for and the outcome of the legal suit is not yet known.

Required:-

- i) The income statement for year ending 31st December 2018 (8 Mrks).
- ii) The statement of financial position as at that date (7 Mrks)

NOTE: This must comply with the requirements of the companies Act

(Total: 15 marks)

QUESTION FIVE

The following is the statement of financial position of Kibet and Kariuki as at 31st March, 2018.

Liabilities	Ksh(000)	Assets	Ksh(000)
Creditors	38,000	Bank	11,500
Mrs. Kibet loan	10,000	Stock	6,000
Mrs.Kariuki loan	15,000	Debtors	19,000
Reserve	5,000	Furniture	4,000
Capital		Plant	28,000
Kibet	10,000	Investment	10,000
Kariuki	8,000	Profit and Loss A/c	7,500
	<u>86,000</u>		<u>86,000</u>

The firm was dissolved on 31st March, 2018 on the following terms:

1. Kibet agreed to take the Investments at ksh 8,000,000 and to pay off Mrs. Kibet Loan.

2. Other Assets were realized as follows:

Ksh(000)

Stock 5,000

Debtors 18,500

Furniture 4,500

Plant 25,000

3. Expenses on realization amounted to 1,600.

4. Creditors agreed to accept 37,000.

The profits and losses were shared in the ratio of 2:1.

Required

a) Realization A/c,

b) Partner's capital A/c

c) Bank A/c.

(Total: 15 marks)

