



MUEO

MOI UNIVERSITY

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

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

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 213

COURSE TITLE: FINANCIAL ACCOUNTING I

DATE: 14TH AUGUST, 2023 **TIME:** 2.00 P.M. – 5.00 PM.

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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

Instructions: Answer question ONE and any other THREE.

QUESTION ONE

- a) Explain how accurate and up-to-date financial records of a farm contribute to effective farm management and decision-making. **(4 marks)**
 b) Explain the importance of cash flow statement in financial reporting. **(4 marks)**
 c) Explain the concept of “self-insurance” and how it works in businesses. **(2 marks)**
 d) The following trial balances was extracted from books of Biashara ltd as at 31st December 2020.

Trial balance		
	Shs	shs
Bank balances	109,100	
Creditors		149,700
7% Debentures		120,000
Debtors	210,000	
Discount on debentures	4,800	
Director’s salaries	94,000	
Furniture and fittings	178,000	
Goodwill	100,000	
Gross profit on trading		599,000
Motor vehicle at cost	450,000	
Motor vehicle disposal account		7,000
Provision for depreciation for motor vehicle		146,000
Preliminary expenses	8,700	
Profit and loss account at 31/12/2019		140,600
Rent, salaries and other expenses	334,900	
Share capital (authorized and issued):		
25,000 ordinary shares of shs 20 each		500,000
5,000 6% preference shares of shs 20 each		100,000
Share premium account		120,000
Stock as at 31/12/2020.	<u>392,800</u>	
	<u>1,882,300</u>	<u>1,882,300</u>

Additional information

- i. On 1st January 2020, a motor vehicle which costed shs 30,000 on 1st January 2016, was sold for shs 7,000. Entries for this amount have been made to bank and motor vehicle disposal account but no other entries were made in 2016 in relation to this vehicle. Depreciation is provided on motor vehicle at 20% of cost but no amount has been provided for the current year.
- ii. A provision for doubtful debt is to be created equal to 4% of debtors
- iii. Provision is to be for corporate tax at 40% on chargeable profit of shs 84,000 for the year to December 2020.
- iv. Debentures were issued on 31st December 2020 and no interest had accrued. They are secured on all assets of the company.
- v. The directors have proposed a dividend of 5% on ordinary share capital and 6% on preference share capital for the year 2020.

- vi. A customer is suing the company for a breach of contract and is claiming shs 80,000 damages. This amount has not been provided for and the outcome of the legal suit is not yet known.

Required

- i. Prepare the income statement of Biashara ltd for the year ended 31st December 2020. **(8 marks)**
- ii. Prepare the statement of financial position of Biashara ltd as at 31st December 2020. **(7 marks)**
- (Total 25 marks)**

QUESTION TWO

- a) Discuss how different stakeholders utilize ratio analysis to make informed decisions **(5 marks)**
- b) Home Baking 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 December 2019 and 2020

	2019 Shs ‘000’	2020 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 December 2019 and 2020

	2019 Shs ‘000’	2020 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 2020

- i. Early in the year the company declared and paid a total of 4,000,000 as cash dividends.
- ii. 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 THREE

- a) Briefly explain factors that can affect the timing and amount of royalty income and the potential impact on the licensor's profitability and cash flow. (6 marks)
- b) The following balances were extracted from the books of Daima Insurance Company Ltd as at 31.12.2020.

Claims paid	480,000
Claims outstanding on 1 st Jan 2020	40,000
Claims intimated & accepted, but not paid on 31.12.2020	70,000
Premiums received	1,200,000
Re-Insurance premium paid	120,000
Commission	200,000
Commission on Re-Insurance ceded	8,000
Commission on Re-Insurance accepted	4,000
Management expenses	302,000
Provision for unexpired risk on 1 st Jan 2020	400,000
Additional provision for unexpired risk on 1 st Jan 2020	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 of motor car	3,500
Bad debts	2,500
Refund of double taxation	4,500
Interest on dividends	8,000
Income tax deducted thereon	1,500
Legal expenses regarding claims	4,000
Profit on sale of investments	3,500
Rent of staff quarters deducted from salaries	2,400
Depreciation of furniture	4,600

Additional information

You are required to provide for additional Reserve @1% of the net premium in addition to the opening balance of Additional Reserve, and reserve for unexpired risk at 40% of net premium.

Required

Prepare Revenue account as at 31st December 2020.

(9 marks)

(Total: 15 marks)

QUESTION FOUR

- a) Analyze the role of Generally Accepted Accounting Principles (GAAP) in the preparation of company's financial statements. (5 marks)
- b) The following statement of financial position and statement of profit or loss was extracted from Uzima Ltd.

Statement of Financial Position as at 31 March 2021 (kshs000)

Non-current assets		
Equipment at cost		720
Less Depreciation to date		<u>(240)</u>
		480
Current assets		
Inventory	360	
Accounts receivable	72	
Bank	–	<u>432</u>
Total assets		912
Current liabilities		
Accounts payable	192	
Dividends payable	14	
Bank overdraft	<u>202</u>	
	408	
Non-current liabilities		
5% Loan notes	<u>(120)</u>	(528)
Net assets		<u>384</u>
Equity		
Share capital – ordinary shares of 50p each		300
Reserves		
General reserve		481
Retained profits		<u>36</u>
		<u>384</u>

Statement of Profit or Loss for period ending 31 March 2021 (kshs000)

Revenue		2,400
Less Cost of goods sold		
Opening inventory	300	
Add Purchases	1,740	
	2,040	
Less Closing inventory	<u>(360)</u>	<u>(1,680)</u>
Gross profit		720
Less Depreciation	96	
Other expenses	572	<u>(668)</u>
Operating profit		52
Loan-note interest		<u>(6)</u>
Profit for the year		<u>46</u>

Additional information:

- i. The statement of changes in equity shows that retained profits at 1 April 2020 were kshs28,800.

- ii. kshs24,000 has been transferred from retained profit to the general reserve;
- iii. a dividend of kshs14,400 was paid during the year. (The statement of financial position reflects these items.)

Required

You are required to;

- i. Calculate and interpret two liquidity ratios to assess the company's short-term financial position. **(2 marks)**
- ii. Calculate and interpret two profitability ratios to evaluate the company's profitability performance. **(2 marks)**
- iii. Calculate and interpret two solvency ratios to evaluate the company's long-term financial stability. **(2 marks)**
- iv. Provide an overall evaluation of the company's financial performance based on the above ratios. **(2 marks)**
- v. Based on the findings of the above ratios, give recommendations for improvement. **(2 marks)**

(Total: 15 marks)

QUESTION FIVE

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. **(8 marks)**
- (b) Statement of financial position as at 30 June 2021 **(7 marks)**

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

QUESTION SIX

- a) Analyze the impact of government subsidies and grants on farm accounts. Discuss the benefits and challenges associated with these forms of financial support and explain how they should be recorded and reported in farm financial statements. **(8 marks)**
- b) Discuss the international considerations in royalty accounting. Explain how cross-border royalty transactions are accounted for, considering factors such as foreign currency translation, transfer pricing regulations, and tax implications. **(7 marks)**

(Total: 15 marks)