



**MOI UNIVERSITY**

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC  
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS  
2016/2017 ACADEMIC YEAR**

**END OF SEMESTER EXAMINATIONS**

**FOR THE DEGREE  
IN BACHELOR OF BUSINESS AND ECONOMICS**

**EXAM CODE:-       BBM 213**

**COURSE TITLE:-   FINANCIAL ACCOUNTING I**

**DATE:-9<sup>TH</sup> JUNE, 2017**

**TIME:- 2.00P.M. – 5.00P.M.**

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**INSTRUCTION TO CANDIDATES**

➤ **SEE INSIDE.**

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**BBM 213: FINANCIAL ACCOUNTING I****MAIN EXAMINATION****Instructions: Answer Question ONE and any Other THREE Questions****QUESTION ONE**

- a) Explain the difference between
- Capital reserve and Revenue reserve
  - Nominal share capital and called-up share capital
  - Share premium and revaluation reserves. (6 marks)
- b) The trial balance of Kedenko Ltd at 31<sup>st</sup> December 2016 was as follows:

	DR '000'	CR '000'
Issue share capital @ sh.1 each		30,000
Freehold properties – At cost	40,000	
Motor vehicles: At cost	10,000	
Depreciation to 31 <sup>st</sup> December 2015		4,000
Expenses	11,000	
Stocks at 31 <sup>st</sup> December 2015	12,000	
Purchases	70,000	
Sales		100,000
10% Debenture		15,000
Debenture interest	750	
Bank overdraft		1,000
Bank interest	250	
Debtors and Creditors	25,000	15,000
Dividend paid	1,500	
Profit and loss account at 31 <sup>st</sup> December 2015		<u>5,500</u>
	<u>170,500</u>	<u>170,500</u>

**Additional information:**

- Closing stock is Sh.10,000,000
- The debentures were issued on 1<sup>st</sup> April 2016
- The bank statement received does not agree with the cash as at 31<sup>st</sup> December 2016 because of the following:
  - Cheque in cash book not on bank statement Sh. 600,000
  - Standing order including on bank statement but not in cash book Sh.200,000
  - Credit transfer from a debtor on bank statement but not in book Sh.500,000
- All motor vehicle was purchased in 2013. Depreciation has been, and is still to be provided at the rate of 25 percent per year on cost. On December 31<sup>st</sup> 2016 one vehicle, purchased on 1 January 2013 for Sh. 4,500,000 was sold for 2,750,000. This sale was accepted in part settlement of the price of Sh. 4,000,000 for a new van. No entries have been made in the books with regard to these transactions, and no money has been paid or received.
- The corporation tax liability for the year to 31<sup>st</sup> December 2016 is estimated at Sh. 5,000,000.



- f. A final dividend of 60 cents per share on the existing shares is proposed.
- g. By agreement, 10,000,000 new Sh. 1 ordinary shares are to be issued at Sh.1.25 per share and the proceeds transferred immediately to bank account.

**Required:**

- a. Statement of comprehensive incomes for the year ended 31<sup>st</sup> December 2016.(12 marks)
- b. A statement of financial position as at the date (7 marks)
- (Total: 25 marks)**

**QUESTION TWO**

Kamau, a farmer extracted the following trial balance as at 30<sup>th</sup> June, 2016.

	Sh. '000'	sh. '000'
Crop Insurance	240	
Stocks at 1 <sup>st</sup> July, 2015		
Growing crops, wheat, seeds & Fertilizers	1,000	
Livestock	1,250	
Livestock feeds	300	
Land and Buildings (cost)	10,000	
Farm machinery (cost, sh.5, 400, 000)	3,900	
Profit and Loss account (1 <sup>st</sup> July, 2015		500
Loan from farmers' Bank Ltd		3,000
Sale of wheat		1,750
Sale of cattle		3,000
Sale of carcass		750
Managers personal account		100
Bank overdraft		150
Sundry Creditors		750
Interest on loan from Farmers Bank Ltd	225	
Office expenses	200	
Crop expenses	500	
Livestock wages	800	
Other livestock expenses	615	
Purchase of seeds	200	
Livestock purchases	625	
Livestock feeds purchased	35	
Capital		13,500
Farm house expenses	60	
Staff meals	25	
Repairs to farm machinery	50	
Tools and implements (1 <sup>st</sup> July, 2015)	125	
Sundry debtors	1,500	

Cash in hand	1,300	
Managers salary	300	
General farm labour wages	250	
	<u>23,500</u>	<u>23,500</u>

### Additional Information:

- The entire crop insurance was taken with effect from 1<sup>st</sup> July, 2016 to provide an annual risk cover against crop losses due to climate risks such as floods, draught and plant diseases.
- Manager's salary and staff meals are charged to livestock and crop activities in the ratio 1:4 respectively.
- Depreciation on tools and implements is to be apportioned equally between the crop and livestock activities. The book value of tools and implements as at 30<sup>th</sup> June, 2016 was sh. 100,000.
- Provision for doubtful debts is to be maintained at 5% of the year and debtors and had debts for sh.21, 000 are to be written off.
- Farm machinery is to be depreciated at the rate of 20% per annum on cot.
- Crops consumed by some of the farm laborers during the year ended 30<sup>th</sup> June 05 were valued at sh.50, 000.
- During the year ended 30<sup>th</sup> June, 2005 Nkobe's family members provided general farm labour valued at sh.10, 000. The family also consumed crops valued at sh.160, 000.
- The loan from Farmers Bank was obtained on 1<sup>st</sup> January 2016 and was to be repaid in full by the end of the fifth year. Interest was to be paid semi-annually on 30<sup>th</sup> June and 31<sup>st</sup> December at the rate of 15% per annum. The entire loan was used on crop activities.
- Assume there were no transfers of inputs between the main activities of crop farming and livestock farming.
- stocks as at 30<sup>th</sup> June 2016 were as follows;

	sh. '000'
Growing crops	170
Wheat seeds and fertilizers	300
Livestock	2,000
Livestock feeds	50

### Required:

- Crop account for the year ended 30<sup>th</sup> June, 2016 (3 marks)
- Livestock account for the year ended 30<sup>th</sup> June, 2016 (3 marks)
- General profit and loss account for the year ended 30<sup>th</sup> June 2016 (3 marks)
- Balance sheet as at 30<sup>th</sup> June, 2016. (6 marks)

(Total: 15 marks)

### QUESTION THREE

The following balances were extracted from the books of Kenya Commercial Bank Ltd on 30<sup>th</sup> June 2016.

Government securities	Shs. '000'
Loans and advances	1,172,000
Cash and Balances with central bank	2,973,200
	628,500



Other money market placements	17,300
Property, plant equipment	504,000
Interest on loan and advance	435,500
Interest on government securities	238,200
Foreign exchange income	72,000
Fees and commission 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 expenses	42,000
Director's emoluments	12,500
Bad and doubtful debts	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 expenses	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<sup>th</sup> June 2016 was S. 30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh. 150,000,000 as at 30<sup>th</sup> June 2016.

**Required:**

- a. Profit and Loss account for the year ended 30<sup>th</sup> June 2016.
- b. Balance Sheet as at 30<sup>th</sup> June 2016

(9 marks)

(6 marks)

**(Total: 15 marks)**

**QUESTION FOUR**

- a. Explain the following terms used in banking:
  - i. Money at call and short notice
  - ii. Cash credit
  - iii. Overdraft
  - iv. Discount of Bills
  - v. Bills of collection
- b. Explain the following terms used in insurance

(5 marks)

- i. Full insurance
- ii. Indemnity
- iii. Policy becoming claims
- iv. Bonus in reduction of premiums
- v. Surrender value

(5 marks)

c. Explain the following terms used in royalty accounts

- i. Short workings
- ii. Recoupment
- iii. Landlord
- iv. Tenant
- v. Royalties

(5 marks)

(Total: 15 marks)

### QUESTION FIVE

The following are balances of Kenya General Insurance Company Limited as at 31.12.2016

Survey expenditure relating to claims	10,000
Opening additional reserve (Fire)	50,000
Commission paid (Fire)	90,000
Commission (Marine)	108,000
Claims paid & outstanding (Marine)	380,000
Claims paid & outstanding (Fire)	180,000
Fire fund (opening)	250,000
Marine fund (opening)	820,000
Bad debts recovered	1,200
Share transfer fee	800
Director's fee	5,000
Auditors fees	1,200
Bad debts (Marine)	12,000
Bad debts (Fire)	5,000
Commission earned on Re-Insurance ceded (Marine)	60,000
Commission earned on Re-Insurance ceded (Fire)	30,000
Management expenses (Fire)	145,000
Management expenses (Marine)	400,000
Marine premium less re-insurances	1,080,000
Fire premium less re-insurances	600,000
Profit on sale of land	60,000
Miscellaneous receipts	5,000
Differences in exchange (CR)	300
Interest & dividend received	14,000
Depreciation	35,000

- In addition to usual reserves of 50% on reserve for unexpired risks for fire Insurance and 100% for marine
- Additional reserve in case of fire Insurance is to be increased by 5% of net premium.

**Required:**

- a) Fire revenue account (5 marks)  
 b) Marine revenue account (5 marks)  
 c) General Profit and loss account (5 marks)
- (Total: 15 marks)**

**QUESTION SIX**

You have been provided with the following summarized accounts of Kenya Ltd for the year ended 31<sup>st</sup> march .2016.

**Balance Sheet as at 31<sup>st</sup> March 2016**

<b>Non-current Assets</b>	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>
		<u>1,680,000</u>
<b>Current Assets</b>		
Stocks	1,000,000	
Debtors	400,000	
Investments	<u>120,000</u>	
	1,520,000	
<b>Current Liabilities</b>		
Trade creditors	(238,400)	
Bank overdraft	(878,400)	
Corporation Tax	(176,000)	
Dividends payable	<u>(107,200)</u>	<u>120,000</u>
		<u>1,800,000</u>
<b>Finance by:</b>		
Issued and fully paid share @ Sh. 1		400,000
Capital reserve		200,000
Revenue reserve		800,000
10% Debentures		<u>400,000</u>
		<u>1,800,000</u>



## Income Statement for the year ended 31<sup>st</sup> March 2016

Sales (credit)		<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000	
Debentures interest	<u>(40,000)</u>	
Profit before tax	400,000	
Corporation tax	<u>(176,000)</u>	
Profit after tax	224,000	
Proposed ordinary dividend	<u>(107,000)</u>	
Retained profit transferred to revenue Reserve	<u>116,800</u>	

The following additional information was provided to you:

1. The purchases for the year were Sh. 2,160,000 while cost of sales was Sh. 3,000,000
2. The market price of Kenya Daily Ltd shares at 31<sup>st</sup> 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 Kenya Daily Ltd
  - i. Return on capital employed
  - ii. The net profit margin
  - iii. The gross profit margin
  - iv. Current ratio
  - v. Acid test ratio
  - vi. Average debtors' collection period (days)
  - vii. Dividend yield ratio
  - viii. Price earnings ratio
  - ix. Gearing earnings ratio
  - x. Total Assets turnover

**(10 marks)**
- b. Comment on the Kenya Daily Ltd liquidity and profitability stating the reference points to which relevant ratios can be compared.

**(5 marks)**

**(Total: 15 marks)**

\*\*\*END\*\*\*