

MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS 2015/2016 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF **BUSINESS MANAGEMENT**

EXAM CODE: BBM 213

EXAM TITLE:

FINANCIAL ACCOUNTING

DATE: 24TH AUGUST, 2016 TIME: 9.00 A.M. – 12.00 NOON

INSTRUCTION TO CANDIDATES

SEE INSIDE

THIS PAPER CONSISTS OF (5) PRINTED PAGE

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BBM 213: FINANCIAL ACCOUNTING 1 MAIN EXAMINATIONS

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

QUESTION ONE

- (a) Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. (5 marks)
- (b) Distinguish reserves from share capital. (5 marks)
- (c) The following were extracted from the books of Panda Limited as at March 31st 2012.

	0,000
8% preference shares of sh.10each fully paid	
, Prince	0,000
Share premium	0,000
6% Debentures 50	0,000
Creditors	4,000
Debtors 165	5,000
Rales 2,40	0,000
Purchases 2,11	0,000
Chest Discounts Allowed	2,500
Public Discounts Received	6,500
Freehold Building (at cost)	50,000
Accumulated Depreciation on freehold buildings	25,000
Fixtures and fittings (at cost)	20,000
Accumulated Depreciation on fixtures and fittings	28,000
	10,000
Returns outward	40,000
	20,000
Administration expenses	73,000
New Selling and distribution expenses	83,500
Bad debts written off	2,000
Provision for doubtful debts	9,000
Retained profits b/f on 1 st April 2011	30,000
Goodwill	80,000

Additional Information:

i. Depreciation is charged annually on the cost of fixed asset held at the end of the financial year at the following rates;

Freehold buildings

5%

Fixtures and fittings

20%

- ii. The debtors' balance includes sh.5, 000 due from John who has been declared bankrupt and it has been decided to write off the debt.
- iii. The provision for doubtful debts is to be 5% of debtors
- iv. Administration expenses accrued as at March 2012 amounted to shs. 4,000 PL
- v. Further provision is to be made for directors' fees amounting to shs.10, 000 Plane
- vi. The company paid interest on the debentures for the year ended 31st March 2012 on April 15, 2012.
- vii. Gross profit on sales is at the rate of 20% of sales
- viii. The company's directors proposed that the preference share dividend be paid and also a dividend of 10% on ordinary shares was also to be paid.

Required

- a) An Income statement and statement of appropriation for the year ended 31st march 2012. (8 marks)
- b) Statement of financial position as at 31 March 2012

(Total: 25 marks)

(7 marks)

QUESTION TWO

The following trial balance was extracted from the books of Mrkosgei, a farmer in Kesses as at 30 April 2016.

	Sh.	Sh.
Fixed assets		
Land	4,000,000	
Buildings	800,000	
Motor vehicles	1,780,000	
Farm implements	900,000	
Current assets		
Pesticides 1 May 2015	170,000	C. C. C.
Maize 1 May 2015	896,200	163120
Beans 1 May 2015	1,687,500	8250
		3

19,00

6/100 x 50,000

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Animal feed 1/May 2015	300,700	
Debtors	520,800	
Cash in hand and at bank	1,160,100	
Purchases		
Livestock	2,000,000	
Pesticides	617,800	
Medicine	130,800	
Seeds	92,500	,
Livestock fattening formula	220,000	
Sales		
Maize		3,200,900
Beans		1,430,000
Livestock		3,900,000
Crop expenses		
Labour	538,000	
Other direct expenses	118,000	
Livestock expenses		
Medicine	247,000	
Labour	128,800	
General expenses	71,400	
Creditors		798,300
Loan		3,800,000
Bank charges,	20,200	
Capital J		3,270,600
	16,399,800	16,399,800

You are given the following additional information:

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ril 2016 were: ((104104)
1,200,000
640,000
1,506,100
120,700

(2)		
	Drawings	Sh.
	Livestock	42,800
	Coconuts	19,100
	Maize	33,700

(3) Depreciation is to be provided for at the rate of 20% and 10% per annum for motor vehicles and farm implements respectively on the book values. Buildings to be depreciated at 2% per annum on cost.

The bank interest is 15% per annum on the loan. The interest for the current year has not (4)been paid. The loan of Sh. 3,800,000 was used as follows:

Livestock	 Sh.
Crop	2,000,000
	Sh.
	1,800,000
	Sh.
	3,800,000

At the end of the year Sh. 19,100 was paid for medicine which had not been delivered by (5) 30 April 2006.

Required:

(i) General trading, profit and loss account in columnar from for the year ended 30th April (a) 2016 (10 marks)

Balance sheet as at 30 April 2016. (5 marks) (b)

(Total: 15 marks)

QUESTION THREE

The following balances were extracted from the books of Exotic Marine Insurance Company Ltd. on 30 April 2014.

30 ripin 201	Sh.
Premium less re-insurance	14,791,500
Commission on direct business	660,000
Commission on re-insurance ceded	78,000
Commission on re-insurance accepted	57,000
Depreciation	96,000
Loss on sale of investment	150,000
Claims paid less re-insurance	7,560,000
Claims recovered under re-insurance not adjusted	300,000
Directors remuneration	450,000 investment 412,500×
Interest and dividends (net) not relating to any fund	412,500×
Reserves for unexpired risk on 1 May 2013	11,700,000
Additional reserve on 1 May 2013	1,170,000
Claims outstanding on 1 May 2013	567,000
Claims outstanding on 30 April 2014	687,000
Tax deducted from interest and dividends	> 120,000
Salaries	960,000
Rent and rates	87,000
Postage and stationery	129,000
Surveyors fees and legal charges for settlement of	300,000
claims	2,925,000
Profit and loss appropriation account 1 May 2013	

41500

investment on reserve

1,170,000

The following additional information is available:

- 1. Reserves for unexpired risks to be maintained at 100% of the net premium income.
- 2. Additional reserves of 10% on the said premium is also to be maintained.
- 3. Provision for taxation to be made for the year Sh. 912,450
- 4. Investment reserve to be increased by Sh. 225,000.

Required:

- (a) Revenue account for the year ended 30 April 2014. (8 marks)
- (b) The profit and loss account for the year ended 30 April 2014 (7 marks)

 (Total: 15 marks)

QUESTION FOUR

The following are extracts from the financial statements of Uweso Ltd. As at 31 March:

	2015		2014	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
Fixed assets:				
Goodwill		2,800		2,900
Freehold land and building		16,800		12,000
Plant and machinery (NBV)		5,860		6,350
Investment at cost		3,600		3,750
		29,060		25,000
Current assets:				
Stocks	10,050		8,700	
Accounts receivable	6,140		7,800	
Investments	1,710		840	
Cash at hand and bank	200		430	
	18,100		17,770	
Current liabilities				
Bank overdraft	(2,390)		(6,540)	
Accounts payable	(5,850)		(5,250)	
Proposed dividends	(450)		(380)	
Taxation	(820)		(600)	
	(9,510)		(12,770)	
Net current assets		8,590		5,000
		37,650		30,000
15% debentures		(7,500)		(9,000)
		30,150		21,000
Capital and reserves:				
Authorized, issued and paid Sh.10				
Ordinary shares		18,000		15,000
Share premium		1,500		750
Revaluation reserve		4,500		_
Retained profit		6,150		_5,250



The profit and loss appropriation account for the year ended 31 March 2015 is given below:

	Sh.'000'	Sh.'000'
Net profit before tax		2,400
Less: Corporation tax		900
Profit after tax		1,500
Dividends:		
Interim (paid)	150	
Proposed (paid)	<u>450</u>	600
		900

The following additional information is provided:

1. Profit for the year is arrived at after charging:

	Sh.'000'
Depreciation plant and machinery	1,150
Goodwill amortization	420

2. During the year, plant with a net book value of Sh.750,000 was sold for Sh.1,470,000. The plant had originally cost Sh.3,000,000.

3. The investments portfolio was reduced by selling one block of shares at a profit of sh.160,000.

Required:

Cash flow statement in accordance with IAS 7.

(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 2015 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 Interest on placements and bank balances Non-operating income Customers' deposits Deposits and balances due to other banks	64,000	72,000 34,000 8,480,000 430,000	
Depreciation charges Directors emoluments Bad and doubtful debts Interim dividends paid Salaries and wages	84,000 25,000 68,000 50,000 590,000	430,000	
Interest on borrowed funds Interest on customers deposits Ordinary share capital Auditors fees	70,000 230,000 7,000	500,000	
Contribution to staff pension scheme Administrative expenses Loss on sale of fixed assets Reserves	29,000 285,000 43,600	1,058,000	(
Legal fees	40,000 12,405,600	12,405,600	
 Additional information: Current tax has been estimated at Sh.200,000,00 A final dividend of 15% has been proposed. Unrecorded accrued interest expense on cus sh.70,000,000. Interest income on loans and advances to custo was omitted from the books. 	stomers' deposits at 30		
Required: (a) Income statement for the year ended 30 June 20 (b) Statement of financial position as at 30 June 20			
(These statements should be presented in accordance v Statements of Banks and Similar Financial Institutions)		in the Financial: 15 marks)	
QUESTION SIX (a) Define the following terms and explain how the an insurance company:	ey are treated in the financi	ial statements of	
 (i) Bonus in reduction of premium (ii) Surrender value (iii) Consideration for annuities granted (iv) Commission on reinsurance ceded. 	(2 marks) (2 marks) (3 marks) (2 marks)	The fire production of the control o	*:

(b)Identify with reasons, one party who may be interested in each of the following ratios:

(i) Current ratio

(ii) Net profit margin

(2 marks)

(2 marks)

(ii) Net profit margin(iii) Stock turnover

Total marks (15)

(2 marks)