



MOI UNIVERSITY

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

**UNIVERSITY EXAMINATIONS
2013/2014 ACADEMIC YEAR**

SECOND YEAR END OF SEMESTER I/II EXAMINATIONS

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

EXAM CODE:- BBM 201

COURSE TITLE:- FINANCIAL ACCOUNTING I

DATE:- 6TH JUNE, 2014

TIME:- 2.00P.M. - 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ **SEE INSIDE.**

THIS PAPER CONSISTS OF (7) PRINTED PAGES

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BBM 201: FINANCIAL ACCOUNTING I

INSTRUCTIONS; Answer Question one and any other three

QUESTION ONE

a) Identify the reasons why farm accounts should be prepared. (5mks)

b) The following information was extracted from the books of Mr. Wafula, a farmer, for the year ended 31 March 2014:

Trial Balance as at 31 March 2014

	Sh.	Sh.
Purchases:		
Poultry	210000	
Dairy cattle	690,000	
Dairy cattle feed	290,000	
Poultry	75,000	
Fertilizers	110,000	
Seeds	50,000	
Sales:		
Crops		1370,000
Dairy cattle		1250,000
Eggs		360,000
Poultry		820,000
Milk		605,000
Opening stock:		
Mature crops	175,000	
Growing crops	60,000	
Seeds	40,000	

Poultry feed	25,000	
Fertilizers	55,000	
Poultry	115,000	
Dairy cattle feed	90,000	
Dairy cattle	260,000	
Wages:		
Poultry	300,000	
Dairy cattle	480,000	
Crops	360,000	
Repairs of farm machinery	125,000	
Farm house expenses	90,000	
Office expenses	41,250	
Crop expenses	140,000	
Dairy cattle expenses	120,000	
Poultry expenses	225,000	
Farm machinery (Net book value)	1,250,000	
Office furniture (Net book value)	750,000	
Drawings in cash	300,000	
Capital account		2,400,000
Debtors	337,500	
Creditors		390,000
Cash in hand and bank balances	350,000	
Accruals		<u>115,000</u>
	<u>8,310,000</u>	<u>8,310,000</u>

Additional information:

1. During the year ended 31 March 2014, the proprietor and the workers consumed items of the following values.

	Proprietor Sh.	Workers Sh.
Poultry	25,000	60,000
Milk	40,000	85,000
Crops	10,000	30,000

2. Farm machinery is depreciated at the rate of 10% per annum on the reducing balance basis while furniture (which initially cost Sh.1, 500,000) is depreciated at 10% per annum on cost.
3. On 31 March 2014, the closing stocks were as follows:

	Sh.
Dairy cattle	240,000
Dairy cattle feed	75,000
Mature crops	135,000
Seeds	20,000
Poultry	70,000
Poultry feed	35,000
Fertilizers	40,000
Growing crops	80,000

Required:

(a) Crop account, poultry account and dairy account for the year ended 31 March 2014.

(13 marks)

(b) General profit and loss account for the year ended 31 March 2014. (4 marks)

(c) Balance sheet as at 31 March 2014. (8 marks)

QUESTION TWO

a) The following information was extracted from the books of Kobo Ltd. for the year ended 30 June 2011 and 2010.

	30 June 2013		30 June 2012	
	Sh '000'	Sh '000'	Sh '000'	Sh '000'
Fixed Assets:				
Land at cost		4,900	1,450	
Buildings at cost	2,700		2,700	
Less: Provision for depreciation	(150)	2,550	(100)	2,600
Plant and machinery	7,044		6,000	
Less: Provision for depreciation	(1,044)	6,000	(600)	5,400
Investment at cost		1,700		1,600
Total fixed assets		15,150		12,500
Current Assets:				
Stocks		5,200	3,200	
Debtors		2,300	2,900	
Cash and bank balances		50	1,900	
		7,550	7,550	
Current Liabilities:				
Creditors		5,000	3,200	
Dividends		1,060	800	
Total current liabilities		(6,060)	(4,000)	
Net Current Assets		1,490	4,000	
Net Assets		16,640	16,500	
Financed By:				
Share capital:				
Ordinary shares of Sh.10 each		6,400	6,000	
12.5% Preference shares Sh20 each		4100	2,500	
10% Redeemable preference shares (Sh.100 par)		1,000	2,000	
Reserves: Share premium		940	600	
Capital redemption reserve		600		
General reserve		600	500	

Profit and Loss account	<u>1,060</u>	<u>640</u>
Total shareholder funds	14,700	12,740
7% Debentures	<u>1,940</u>	<u>3,760</u>
	<u>16,640</u>	<u>16,500</u>

The following additional information is available for the year:

- (a) Land was purchased by issuing 80,000 12.5% preference shares of Sh20 at par fully paid at a premium of 25%.
- (ii) Half of the redeemable preference shares were redeemed at Sh.110. The premium was paid out of share premium account. For this purpose, 40,000 ordinary shares were issued fully paid for cash at a premium of 10%. The capital redemption reserve was created out of transfer from general reserve.
- (iii) A plant which had cost Sh.185,000 was sold for Sh.140,000. Depreciation on the plant at the time of disposal was Sh.156,000.
- (iv) 7% Sh2,000,000 debentures were redeemed for Sh.1,800,000.

Required:

A cash flow statement for the year ended 30 June 2011.
(10mks)

- b) i) Identify and explain the importance of Cash flow statement
(3mks)
- ii) Differentiate between a profit and loss account and a Cash flow statement
(2mks)

QUESTION THREE

a) The summarized accounts of TMC Ltd. for the year ended 31 March 2013 and 2014 are as follows:

	2013	2014
	Sh. '000'	Sh. '000'
Balance Sheet		
Investments at cost	16,000	16,000
Land	12,600	8,800
Plant and machinery, at cost	2,200	2,000
Buildings, at cost	18,000	10,000

Stock	13,000	11,000
Debtors	10,000	8,000
Bank	-	-
	<u>71,800</u>	<u>50,400</u>
Ordinary shares Sh.20 each	10,000	8,000
Share premium	2,800	2,600
Revaluation reserve	4,000	5,000
Profit and Loss Account	5,000	5,000
10% Debentures	30,000	20,000
Accumulated Depreciation:		
Plant and machinery	1,000	800
Building	2,200	2,200
Creditors	12,000	8,000
Proposed dividend	4,000	4,000
Bank	800	-
	<u>71,800</u>	<u>50,400</u>

Profit and Loss Account:		
Sales	40,000	40,000
Cost of Sales	<u>24,000</u>	<u>20,000</u>
	16,000	20,000
Expenses	<u>12,000</u>	<u>12,000</u>
	4,000	8,000
Dividends	<u>4,000</u>	<u>4,000</u>
	-	4,000
Balance brought forward	<u>5,000</u>	<u>1,000</u>
Balance carried forward	<u>5,000</u>	<u>5,000</u>

Required:

Calculate for Mwangaza Ltd. for 2009 and 2010 the following ratios:

- (1) Gross profit percentage
- (2) Net profit percentage
- (3) Debtors turnover
- (4) Creditors turnover
- (5) Current ratio
- (6) Quick assets (acid test) ratio
- (7) Dividend cover
- (8) Gearing ratio
- (9) Return on capital employed

(10mks)

b) Basing on the above ratios, explain the performance of TMC Ltd. (5mks)

QUESTION FOUR

a) Differentiate between the following terms as used in accounting:

i) Reserves from share capital

- ii) Capital and Revenue Expenditure
- iii) Royalty and Short Workings accounts
- iv Rebate on bills and bill discounted
- v) Money at call and Money at short notice

(Total: 15 marks)

QUESTION FIVE

Malaba Ltd. Prepares its accounts to 30th April each year. At 30th April 2014 its trial balance was as follows:

	DR	CR
Plant and machinery (cost)	125,000	

Depreciation at 1 st July 2013		28,000
Office equipment (cost)	45,000	
Depreciation at 1 st July 2013		15,000
Inventories at 1 st July 2013	31,000	
Purchases and sales	115,000	
Returns	8,000	6,000
Selling expenses	12,000	
Salaries and Wages	14,000	
Heating and Lighting	8,000	
Printing and Stationery	6,000	
Directors fees	5,000	
Telephone and fax	6,000	
Rent, Rates and Insurance	4,000	
Trade receivable and payables	35,000	33,000
Provision for doubtful debts 1 st July 2013		4,000
Bank	3,000	
Petty Cash	1,000	
Interim dividend paid	2,000	
Equity shares fully paid @ 50cts each		100,000
General Reserve		15,000
Accumulated profits 1 st July 2013		34,000

Suspense Account

3,000

423,000

423,000

The following additional information at 30th April 2014 is available:

- (i) Closing stock inventories of goods for resale shs. 53,000
- (ii) Prepayments include telephone and fax rental shs.1,000 and rates insurance shs.1,000
- (iii) Accruals include wages and salaries shs. 1,500, directors fees 2% of net revenue and auditors fees sh.3,500
- (iv) Specific bad debts to be written off amounted to shs. 3,000
- (v) Allowances for doubtful debts are to be amended to 5% of receivables.
- (vi) The following book-keeping errors are discovered:
 - a) The purchase of an item of inventory has been debited to office equipment account, cost shs.1,200.
 - b) The payment of sh.1,300 to a creditor has been recorded by debiting the bank account and crediting the creditors account.

Any remaining balance on the suspense account is to be added to payments or accruals as appropriate in the balance sheet.

- (vii) The figure in the trial balance for the bank balance is the balance appearing in the cash book, prior to the reconciliation with the bank statement. Upon reconciliation, it is discovered that;
 - a) Un presented cheques amounted to sh.3,000
 - b) Bank charges not entered in the ledger amounted to sh.4,000
- (viii) Depreciation of non-current assets is to be provided as follows;

Plant and machinery 10% on cost

Office equipments 331/3%, on reducing balance at the end of the year

- (ix) A final dividend of 10cts per share was proposed on 29th April 2014.
- (x) Sh.10,000 was to be transferred to general reserves.
- (xi) Provision of sh.1,000 for income tax is to be made.

Required

- a) Prepare an Income Statement for the year ended 30th April 2014 (8marks)
- b) Prepare a Balance Sheet as at 30th April 2014 (7 marks)

QUESTION SIX

- A) Identify and explain the privileges of a private company (8 marks)
- B) Explain the methods of issuing shares by public companies (7marks)