



## **GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR TWO  
FIRST SEMESTER EXAMINATION**

**SUPPLEMENTARY/SPECIAL EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 229**

**COURSE TITLE: FINANCIAL ACCOUNTING II**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 21/03/18**

**TIME: 09.00-12.00 PM**

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### **INSTRUCTION TO CANDIDATES**

- **The examination has FIVE (5) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

**This paper consists of SEVEN (7) printed pages**

***please turn over***



## QUESTION ONE (COMPULSORY)

- (a) Briefly discuss the following types of partnership highlighting their characteristics
- i. Limited partnership [3 marks]
  - ii. Unlimited partnership [3 marks]
  - iii. Quasi partners [3 marks]
- (b) A partnership deed dictates the various provisions governing a partnership set up. Discuss any five contents of a partnership deed. [5 marks]
- (c) The objective of IAS 1 (Presentations of Published Financial Statements) is to give guidance regarding the preparation of published financial statements and prescribe the content of the published financial statements. Highlight any 6 contents that should be prominently displayed on published financial statements [6 marks]
- (d) Briefly explain FIVE parties interested in the published financial statements. [5 marks]

## QUESTION TWO

- (a) In relation to insurance accounts, briefly explain the following terms:
- i. Life assurance [1 Mark]
  - ii. General insurance [1 Mark]
  - iii. Fidelity insurance [1 Mark]
  - iv. Endowment policy [1 Mark]
  - v. Reinsurance policy [1 Mark]
- (b) Nasibo Assurance Co. trial balance as at 31<sup>st</sup> December 2016 is as shown below:

(Figures in shillings)

	Dr	Cr
Life Assurance fund		1,470,562
Claims: by death	76,980	
: by maturity	56,420	
Premiums		210,572



Expenses of management	19,890	
Commissions	26,541	
Considerations for annuities granted		10,620
Interest, dividends and rent		52,461
Income tax on these (paid)	3,060	
Surrenders	21,860	
Annuities	29,420	
Bonus paid in cash	9,450	
Bonus utilized in reduction of premium	2,500	
Preliminary expenses	600	
Claims admitted but unpaid at year end		80,034
Annuities payable		22,380
Paid up share capital		400,000
Government securities	1,490,890	
Sundry assets	509,110	
Fines for reviving lapsed policies	_____.	<u>92</u> .
	<u>2,246,721</u>	<u>2,246,721</u>

Additional Information:

- i. Claims covered under reinsurance – Sh10,000      Claims by death
- ii. Further claims intimated – Sh8,000
- iii. Further bonus utilized in reduction of premium – Sh1,500
- iv. Interest accrued – Sh15,400
- v. Premiums outstanding – Sh7,400



**Required:**

Prepare the following sets of financial statements for Nasibo Assurance Co.:

- (a) The statement of comprehensive income [5 marks]
- (b) The statement of financial position as at December 31 2016 [5 marks]

**QUESTION THREE**

- (a) Discuss the role of Regulatory authorities in the provision of published financial statements information. [5 marks]
- (b) In the absence of partnership agreement, the Partnership Act provides the rules to protect the interest of partners in the partnership property, and the rights and duties in relation to partnership. Discuss any 5 provisions of the partnership Act. [5 marks]
- (c) Briefly discuss any 5 features of a partnership. [5 marks]

**QUESTION FOUR**

Tom and David are in partnership, sharing profits and losses equally. The following is their trial balance as at 31 December 2016.

	Dr	Cr
Fixed assets	400,000	
Provision for depreciation		40,000
Stock as at 1 Jan 2016	10,000	
Sales		290,000
Purchases	150,000	
Expenses	30,000	
Capital – Tom		197,000
- David		197,000
Current – Tom		8,000



- David	2,000	
Drawings – Tom	5,000	
- David	5,000	
Debtors	70,000	
Bank	80,000	
10% Loan from Tom	_____	<u>20,000</u>
	<b><u>752,000</u></b>	<b><u>752,000</u></b>

Additional information:

1. Stock in hand as at 31 December 2016 was valued at cost at Kshs. 30,000
2. Depreciation is to be provided at 10% per annum on the straight line bases
3. Partners' interest on capital at 1% and charge interest on drawings at 5%
4. Partners' salaries are Kshs.10,000 to Tom and Kshs.5,000 to David

Prepare the following set of financial statements:

- i. Trading and Profit and Loss Account for the year ended 31 December 2016 **[5 marks]**
- ii. Profit and Loss Appropriation Account for the year ended 31 December 2016 **[3 marks]**
- iii. Current Account **[2 marks]**
- iv. Balance Sheet as at 31 December 2016 **[5 marks]**

## QUESTION FIVE

The following list of accounts and their balances represents the unadjusted trial balance of ABC Limited as at December 31, 2016.

	<b>DEBIT</b>	<b>CREDIT</b>
Cash	36,420,000	
Accounts receivable	77,000,000	
Allowance for uncollectible debts		3,500,000
Interim dividend paid	21,000,000	
Inventories	66,000,000	
Prepaid insurance	2,620,000	



Installment tax paid	22,000,000	
Investment in Midnight oil Company Bonds (12%)	40,000,000	
Land at cost	62,300,000	
Buildings at cost	111,000,000	
Accumulated depreciation –Buildings		14,800,000
Equipment	33,600,000	
Accumulated depreciation –Equipment		5,600,000
Accounts payable		63,000,000
10% loan stock		85,000,000
Ordinary share capital		210,000,000
Accumulated profit		21,930,000
Sales		266,000,000
Rental income		5,550,000
Advertising expenses	27,750,000	
Supplies expenses	10,800,000	
Purchases	111,440,000	
Purchases allowance		900,000
Office salary expenses	17,500,000	
Sales salary expenses	36,000,000	
Interest expenses	<u>850,000</u>	<u>                    </u>
	<u>676,280,000</u>	<u>676,280,000</u>

Additional Information:

1. Actual advertising costs amounted to sh.1, 850,000 per month. The company has already paid for advertisements in People Magazine for the first four months of 2017.
2. The buildings were purchased and occupied in January 1, 2014 with an estimated useful life of 15 years. It is the company's policy to depreciate its property, plant and equipment with the exception of land using the straight-line approach.



3. Prepaid insurance contains the premium costs of two policies: Policy A, cost of sh.960,000 for a one year term taken out on Sept 1 2015, Policy B, cost sh.1,980,000, for a three year term taken out on April 1, 2016.
4. A portion of ABC Limited's buildings has been converted into a snack bar that has been rented to the Yummy Food Corp. since July 1, 2015 at a rate of sh.3,700,000 per year payable each July 1.
5. One of the company's customers declared bankrupt on December 30, 2016 and it has been definitely established that the sh.2,700,000 due from him will never be collected. This fact has not been recorded. In addition ABC Limited estimates that 5% of the accounts receivable balance on December 31, 2016 will become un-collectible.
6. Sh.900,000, which was advanced to a salesperson on December 31, 2016 was charged to Sales salary expense. Sales salaries are paid on the 1<sup>st</sup> and 16<sup>th</sup> of each month for the following half month.
7. Equipment, with an estimated useful life of 12 years was acquired on January 1, 2006.
8. On August 1, 2016 ABC Limited purchased 40, sh.1,000,000, 12% Bonds maturing on August 31 2018, at par value. Interest payment dates are July 31 and January 31.
9. The inventory on hand at December 31, 2016 was sh.80,000,000 per a physical inventory count.
10. It is estimated that the tax for the year on adjusted profit to be sh. 30,000,000.
11. The directors have paid a final dividend payment of 10%. The same had not been accounted for.

**Required:**

Prepare the following sets of financial statements for ABC Limited:

- |                                                                                            |                  |
|--------------------------------------------------------------------------------------------|------------------|
| (a) The statement of comprehensive income                                                  | <b>[6 marks]</b> |
| (b) The statement of changes in equity for ABC Limited for the year ended December 31 2016 | <b>[2 marks]</b> |
| (c) The statement of financial position as at December 31 2016                             | <b>[7 marks]</b> |

Do not attempt to classify the expenses by function.

