



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **TWO**  
**SECOND** SEMESTER 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: 16/04/18**

**TIME: 09.00-12.00 PM**

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### INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** 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 **FIVE (5)** printed pages

*please turn over*



**QUESTION ONE (COMPULSORY)**

- (a) (i) Briefly explain the rule in Garner Versus Murray [3 marks]  
(ii) Outline any three essentials of a valid bill of exchange [3 marks]  
(iii) Describe four differences between Hire purchase and Installment sales. [4 marks]
- (b) The following is the balance sheet of Hassan and Jane as at 31<sup>st</sup> December 2017.

**Statement of financial position****As at 31<sup>st</sup> Dec. 2017**

<b>ASSETS</b>	<b>SHS</b>	<b>SHS</b>
<b>Noncurrent assets</b>		
Plant and Machinery		1,400,000
Furniture		600,000
Motor vehicles		150,000
Investments		<u>350,000</u>
		2,500,000
<b>Current assets</b>		
Inventory	250,000	
Debtors	125,000	
Bank	75,000	<u>450,000</u>
		<u>2,950,000</u>
<b>Financed by</b>		
Capital: Hassan	1,000,000	
: Jane	750,000	1,750,000
Current Account: Hassan	300,000	
: Jane	(75,000)	<u>225,000</u>
		1,975,000
<b>Long-term liabilities</b>		
Loan		750,000
<b>Current liabilities</b>		
Creditors		<u>225,000</u>
		<u>2,950,000</u>



The partnership was dissolved on the same date.

**Additional information:**

- (i) Hassan agreed to take furniture at the value of shs 125,000. He also agreed to settle the loan owing.
- (ii) The other assets were realized as follows:-

<b>Assets</b>	<b>Amount</b>
Plant and machinery	1,300,000
Motor vehicles	650,000
Investments	400,000
Inventory	110,000

- (iii) The expenses of realization amounted to shs. 10,000.
- (iv) The creditors agreed to accept shs 210,000
- (v) The profit and loss sharing ratios of Hassan and Jane were 3:2 respectively.

**Required:**

- i. Realization account **[6 marks]**
- ii. Partners capital **[5 marks]**
- iii. Bank account **[4 marks]**

**QUESTION TWO**

- (a) Explain three ways by which a company can finance redemption of its shares **[3 marks]**
- (b) The following data relates to Gamadidwholesalers, which had a consequential loss policy. The business premises were burned down on the night of 30<sup>th</sup> June 2017

Turnover for the year 31/12/17	8,000,000
Net profit	720,000
Standing charges	168,000
Sum insured	2,000,000
Standard turnover	2,600,000
Turnover in period of interruption	1,000,000
Annual turnover 12 months preceding date of fire	9,600,000



### Additional information

1. Indemnity period is 6 months
2. Period for interruption was 1<sup>st</sup> July to 31<sup>st</sup> October (date of fire was 30<sup>th</sup> June)
3. Out of the standing charges sh. 400,000 have not been insured
4. Out of the turnover in the period of interruption sh. 240,000 was from a rented place at sh. 24,000 per month
5. Saving in standing charges were sh. 189,000 per annum
6. It was agreed that the business trends would lead to an increase of 10% in turnover

### Required:

- i. Compute the consequential loss claim. [12 marks]

### QUESTION THREE

Fanaka Traders deals in Generators. They sell the generators for cash and also on hire purchase basis. They sold two generators on hire purchase basis to Prime Investments on 1<sup>st</sup> January 2016 for shs. 3,000,000. The cash price for these generators was Shs. 2,400,000. The payments were to be made by Prime Investments as follows:-

Deposit Shs. 600,000

The balance to be paid in 24 equal monthly installments.

The company recognizes profit on hire purchase sales in the year of sales but hire purchase interest is apportioned on time basis. The financial year of the company ends on 31<sup>st</sup> December each year.

**Required:** Record the above transactions in the following accounts of Fanaka Traders for the years 2016 and 2017 where applicable.

- i. Sales Account [3 marks]
- ii. Hire purchase interest suspense account [5 marks]
- iii. Hire purchase debtors account [5 marks]
- iv. Income statement extracts [2 marks]

### QUESTION FOUR

Bura Ltd which deals in Mobile phones has head office in Nairobi and a branch in Wajir. All purchases are made by the head office and goods are charged to branches at cost plus 20%. The following information relates to the branch for the year ended 31<sup>st</sup> Dec. 2017.

Opening balances	1 <sup>st</sup> Jan 2017:	Branch stock (selling price)	300,000
		Branch debtors	450,000
Closing balances	31 <sup>st</sup> Dec 2017:	Branch stock (selling price)	250,000

Transactions for the year

Goods sent to branch (selling price) 2,500,000



Goods returned by branch to head office (selling price)	200,000
Cash sales	800,000
Credits sales	2,700,000
Returns from customers	100,000
Discounts allowed	30,000
Bad debts written off	20,000
Goods stolen at branch	30,000
Cash stolen at branch	45,000
Cash received from debtors	2,450,000

**Required:**

- i.Branch stock account **[5 marks]**
- ii.Branch adjustment account **[5 marks]**
- iii.Goods sent to branch account **[2 marks]**
- iv.Branch debtors account **[3 marks]**

**QUESTION FIVE**

- (a) Dissolution of partnerships can be occasioned by various modes reasons. Briefly discuss any three modes of dissolution of partnerships. **[6 marks]**
- (b) Outline any three circumstances under which a company may reduce its authorized capital **[3 marks]**
- (c) Using an example describe the term short sales as used in insurance **[3 marks]**
- (d) Briefly outline any three reasons for the preparation of departmental accounts by an organization. **[3 marks]**

