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**GARISSA UNIVERSITY**

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

**THRID TRIMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 213**

**COURSE TITLE: FINANCIAL ACCOUNTING1**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 08/08/18 TIME: 2.00-5.00 PM**

**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 SEVEN (7) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Explain the difference between the following pairs of terms which may be found in a company accounting.
2. Capital reserve and Revenue reserve **[3 marks]**
3. Authorized share capital and Un- called-up share capital **[2 marks]**
4. The following were extracted from the books of Zec Limited as at 31st December 2017.

**DR CR**

10% preference share capital 20,000

Ordinary share capital 70,000

10% Debentures 30,000

Goodwill (at cost) 15,500

Buildings (at cost) 95,000

Equipment (at cost) 8,000

Motor vehicle (at cost) 17,200

Provision for Depreciation

Equipment 1.1.2017 2,400

Motors 1.1.2017 5,160

Stock 1.1.2017 22,690

Sales 98,200

Purchases 53,000

Carriage Inwards 1,620

Salaries and Wages 9,240

Directors Remuneration 6,300

Motor Expenses 8,120

Rates and Insurance 2,930

General expenses 560

Debentures Interest 1,500

Debtors and Creditors 18,610 11,370

Bank 8,390

General Reserve 5,000

Share premium 14,000

Interim Ordinary Dividend paid 3,500

Profit and Loss Account 31.12.2006 16,940

**273,070 273,070**

Additional Information:

1. Stock as at 31.12.2017 was Sh. 27,220
2. Depreciate motors vehicle sh. 3,000, equipment sh.1,200
3. Accrued debenture interest sh.1500
4. Provide for preference dividend sh.2000 and final ordinary dividend of 10%.
5. Transfer sh. 2000 to general reserve.
6. Write off goodwill 3000.
7. Authorized share capital is sh. 20,000 in preference shares and 100,000 in ordinary shares.
8. Provide for corporation tax sh. 5,000.

**Required**

* 1. An income statement for the year ended 31st December 2017 [**11 marks]**
  2. Statement of financial position as at 31st December 2017 **[9 marks]**

**QUESTION TWO**

1. Outline the importance of cash flow statement  **[4 marks]**

The following is the statement of financial position and income statement for the year 2017 for company ABC LTD.

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| **Assets** | **000'** | **000'** |
| **Noncurrent assets** |  |  |
| Land | 45,000.00 | 70,000.00 |
| Building | 200,000.00 | 200,000.00 |
| Accumulated Depreciation-Building | (21,000.00) | (11,000.00) |
| Equipment | 193,000.00 | 68,000.00 |
| Accumulated Depreciation-Equipment | (28,000.00) | (10,000.00) |
| **Current Assets** |  |  |
| Inventories | 54,000.00 | - |
| Accounts receivable | 68,000.00 | 26,000.00 |
| Prepaid expenses | 4,000.00 | 6,000.00 |
| Cash | 54,000.00 | 37,000.00 |
|  | **569,000.00** | **386,000.00** |
| Equity and Liabilities |  |  |
| Share Capital-Ordinary | 220,000.00 | 60,000.00 |
| Retained earnings | 206,000.00 | 136,000.00 |
| Bonds payable | 110,000.00 | 150,000.00 |
| Accounts payable | 33,000.00 | 40,000.00 |
|  | **569,000.00** | **386,000.00** |

|  |  |  |
| --- | --- | --- |
| **ABC LTD** |  |  |
| **Income statement** |  |  |
| **for the year ended 31st December 2017** |  |  |
|  | 000' | 000' |
| Revenue |  | 890.00 |
| cost of goods sold | 465.00 |  |
| Operating expenses | 221.00 |  |
| Interest expenses | 12.00 |  |
| Loss on sale of equipment | 2.00 | 700.00 |
| Income from operation |  | 190.00 |
| Income tax expenses |  | 65.00 |
| **Net income** |  | **125.00** |

Additional information

1. Operating expenses include depreciation expenses of 33,000 and expiration of prepaid expenses of 2000
2. Land was sold at its book value for cash
3. Cash dividends of 55000 were declared and paid
4. Interest expenses of 12000 was paid in cash
5. Equipment with cost of 166,000 was purchased for cash .Equipment with the cost of 41,000 and a book value of 36,000 was sold for 34,000 cash
6. Bonds were redeemed at their book value for cash
7. Ordinary share were issued for cash

**Required**

1. Prepare a cash flow statement for ABC ltd using indirect method for the year ended 31stDecember 2017 [**11 marks]**

**QUESTION THREE**

1. Define the following terms used in accounts of insurance company [**4 marks]**
2. Assignments
3. Re- Insurance
4. With Profit and without Profit Policies
5. Double Insurance
6. The following Trial Balance was extracted from the books of UAP Life Insurance Company as on 31st Dec 2017

**Particulars Debit Credit**

Share capital (share @10 each 100,000

Life Insurance Fund (31.12.2016) 2,972,300

Dividends paid 15,000

Bonus to policy holders 31,500

Premiums received 161,500

Claims paid 197,000

Commission paid 9,300

Management expenses 32,300

Mortgage 492,200

Interest and dividends received 112,700

Agents balances 9,300

Freehold premises 40,000

Investments 2,305,000

Loan on company’s policies 173,600

Cash on deposit 27,000

Cash in hand 7,300

Surrenders 7,000

**3,346,500 3,346,500**

**Additional information:**

1. Claims admitted but not paid Kshs. 9,300
2. Management expenses due Kshs. 200
3. Interest accrued Kshs. 19,300
4. Premiums outstanding Kshs. 12,000

**Required:**

1. Revenue account for the year ended 31st December 2017 **[6 marks]**
2. Statement of financial position as at 31st December 2017 [**5 marks]**

**QUESTION FOUR**

1. Outline the objectives of preparing farm accounts  **[4 marks]**
2. Explain five uses of financial ratios **[5 marks]**
3. The following information was extract from the books of Bura Ranch Ltd;

From the following information, Sh

Opening stocks:

Wheat 5,000

Seeds 1,000

Fertilizers 1,500

Purchases: Seeds 600

Purchases: Fertilizers 900

Wages: Paid in cash 6,800

Paid in kind by giving wheat 4,600

Sales:

Wheat 35,400

Wheat consumed by proprietor 1,600

Depreciation of farm machinery 2,000

Closing stocks:

Wheat 4,000

Seeds 700

Fertilizers 800

**Required**

1. Prepare a “Crop A/C” to ascertain the profit made by the crops division of the farm **[6 marks]**

**QUESTION FIVE**

You have been provided with the following summarized accounts of Jazira Ltd. For the year ended 31 December 2017:

**Statement of Financial Position as at 31 December 2017**

|  |  |  |  |
| --- | --- | --- | --- |
| **Fixed assets:** | **Sh.** | **Sh.** | **Sh.** |
| Freehold property (Net book value)  Plant and machinery (Net book value)  Motor vehicles (Net book value)  Furniture and fittings (Net book value)  Current Assets:  Stocks  Debtors  Investments  Current liabilities:  Trade creditors  Bank overdraft  Corporation tax  Dividends payable  Financed by:  Authorised share capital – 400,000  Sh.1 ordinary shares  Issued and fully paid: 200,000 Sh.1 Ordinary shares  Capital reserve  Revenue reserve  Loan capital: 400,000 10% Sh.1 Debentures | 238,400  878,400  176,000  107,200 | 1,000,000  400,000  120,000  1,500,000  (1,400,000) | 480,000  800,000  200,000  200,000  1,680,000  120,000  1,800,000  400,000  200,000  800,000  400,000  1,800,000 |

Comprehensive Income statement for the year ended 31 December 2017

|  |  |
| --- | --- |
|  | **Sh.** |
| Sales (credit)  Profit after charging all expenses except interest on debentures  Less: debenture interest  Profit before tax  Corporation tax  Less: ordinary dividend proposed  Retained profit transferred to revenue reserve | 4,000,000  440,000  40,000  400,000  176,000  224,000  107,200  116,800 |

**The following additional information was available:**

1. The purchases for the year were Sh.2,160,000 while the cost of sales was Sh.3,000,000.

2. The market price for Jazira Ltd. Ordinary shares as at 31 Dec 2017 was Sh.5

3. The company estimates the current value of its freehold property at Sh.1,100,000.

**Required:**

Compute the following ratios for Jazira Ltd.:

1. Return on capital employees **[1 mark]**
2. The profit margin **[2 marks]**
3. The turnover of capital **[2 marks]**
4. Current ratio; **[1 mark]**
5. Liquid ratio; **[2 marks]**
6. Number of days accounts receivable are outstanding; **[1 mark]**
7. Property ratio; **[2 marks]**
8. Stock turnover ratio; **[1 mark]**
9. Dividend yield ratio; **[1 mark]**
10. Price earnings ratio **[2 marks]**

**QUESTION SIX**

1. Explain five limitation of using financial ratios **[5 marks]**
2. Outline five characteristics of limited companies **[5 marks]**
3. Highlight 5 methods by which public companies raise their capital from the public [**5 marks]**