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**GARISSA UNIVERSITY**

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

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

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other THREE (3) questions from the remaining FOUR (4) 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)**

**Abdi ltd** had the following balances as at 31st Dec 2017.

|  |  |
| --- | --- |
| **Ksh, 000 ksh, 000** | |
| Share capital  Share premium  Trade and other payables  Land & building  Land &building Accumulated depreciation at 1/1/2017  Plant and equipment  Plant & equipment accumulated depreciation  Trade and other receivables  Prepayments  5% bank loan repayable  Cash and cash equivalents  Retained earnings at 1/1/2017  Interest paid  Purchases  Distribution costs  Administrative cost  Inventories at 1/1/2017  Dividends paid | **Dr**  8, 500  5, 800  4, 235  15  385  200  12, 965  5, 468  2, 933  4, 285  625 | **Cr**  5, 000  1, 500  1, 872  424  2, 900  4, 000  3, 875 |
| **45,411** | **45,411** |

**FURTHER INFORMATION**

* The inventories at the close of business on 31/Dec 2017 cost Ksh.5,162,000
* Land which is not depreciated is included in the trial balance at a value of 3000000;it is revalued at ksh3,000,000 and this revaluation is to be included in the financial statements for the year ended 31/Dec/2017.
* Depreciation is to be provided for the year to 31th Dec 2017 at 2% p.a and 20% p.a on Building and plant and equipment respectively .Depreciation on building is on straight line method while depreciation of plant and equipment is on reducing balance basis.
* Depreciation is to be apportioned as follows:

Cost of sales 40%

Distribution costs 40%

Administrative expenses 20%

* Trade receivables include a debt ofksh 10000 which is to be written off. Irrevocable debts are to be classified as administrative expenses.
* Distribution costs ofksh 1800 owing at 31 Dec 2017 are to be provided for
* The corporation tax charge for the year has been calculated asksh 1,475,000
* All of the operations are continuing operations.

**Required:**

1. Draft the statement of profit or loss and other comprehensive income for **Abdi ltd** for the year ended 31st Dec 2017. [**10 marks]**
2. Draft the statement of changes in equity for **Abdi ltd** for the year ended 31 Dec 2017**.**

**[5 marks]**

1. Draft the statement of financial position for **Abdi ltd** as at 31st Dec 2017 [**10 marks]**

**QUESTION TWO**

1. Differentiate between memorandum of Association and article of Association **[2 marks]**
2. Outline FOUR merits of a partnership business. **[4 marks]**
3. Give 4 circumstances which may lead to dissolution of a limited company **[4 marks]**
4. Differentiate between bonus issues and right issues. [**2 marks]**
5. Briefly discuss THREE categories of classifying partners in a partnership business.

**[3 marks]**

**QUESTION THREE**

Mohammed and Fatuma are in a partnership sharing profits and losses 60 percent and 40 percent respectively.Net profit for the year ended 31 march 2002 isksh 42000.At 1st April 2001,the partners had the following balances.

**Capital Account [Ksh] Current Account [ Ksh.]**

Mohamed 40000 2000

Fatuma 30000 400

There was no change to the capital accounts during the year, interest is allowed on partners capital at the rate of eight per cent per year.

Fatuma is entitled to a salary ofksh 16000 per year. On 30thSep 2001 (Half way through the year) partners drawings were made. Mohamedksh18000, Fatumaksh 24000 .There were no other drawings made. Interest is charged on partners drawing at the rate of ten per cent per year.There were no other drawings .Interest is changed on partners’ drawings at the rate of ten per cent per year.

**Required, prepare**

1. Appropriation Account for the two **[10 marks]**
2. Prepare their adjusted current accounts **[5 marks]**

**QUESTION FOUR**

**(a)**Explain the following terms as used in business studies

1. Endowment policy **[2 marks]**
2. Life Assurance **[2 marks]**
3. Re-Insurance **[2 marks]**
4. Insured **[2 marks]**
5. Third-party policy **[2 marks]**

(b)The following balances were extracted from the books of Salama bakeries as at 30 April 2018.

|  |  |  |
| --- | --- | --- |
|  | DR | CR |
| Ksh,000 | ksh,000 |
| Capital  Opening stock  Closing stock  Manufacturing wages  Purchases  Prime cost  Factory Depreciation  Manufacturing Expenses  Opening work in progress  Closing work in progress  Sales  Debtors | 160  200  800  1, 640  2,400  192  416  126  120  446 | 4,500  2000 |
|  | 6500 | 6500 |

**Required**

1. Prepare Salama’s manufacturing account as at 30 April 2018 **[5 marks]**

**QUESTION FIVE**

1. Differentiate between ordinary shares and preference shares in relation to limited companies. **[4 marks]**
2. Briefly explain the following terms in relation to business studies**. [3 marks]**

Limited Partnership

Privatization

Insolvency

1. Kamau and Njoroge are in partnership sharing the profits in the ratio 3:2 respectively.After crediting their accounts with interest on capital at the rate of 5% and monthly salary of sh 20000 and 15000 respectively ;interest on drawing is charged at 5%p.a .The trial balance as at 31st Dec 2017 after drawing profit and loss account was as follows

**KAMAU AND NJORONGE PATNERSHIP**

**TRIAL BALANCEAS AT 31st DEC 2017**

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| **Capital**  Kamau  Njoroge  **Current Accounts**  Kamau  Njoroge  **Drawings**  Kamau  Njoroge  Net Profit  **Fixed Assets**  Land /Buildings  Land/machines  Motor vehicle  Accumulated Depreciation  Land/Buildings  Land/Machines  Motor vehicle  Debtors  Stock  Cash  Creditors | Ksh  225, 000  215, 000  500, 000  300, 000  200, 000  100, 000  200, 000  290, 000 | Ksh  500, 000  400, 000  20, 000  10, 000  800, 000  100, 000  50, 000  50, 000  100, 000 |
|  | **2030 000** | **2030 000** |

**Required**

1. Prepare Kamau and Njoroge’s profit and loss appropriation Account **[8 marks]**