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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEARTWO**

**FIRST 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: 2 HOURS**

**DATE: 28/11/18 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE(5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) 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 SIX (6) printed pages *please turn over***

**QUESTION ONE(COMPULSORY)**

1. Explain five types of share capital of a limited public company.  **[10 marks]**
2. Truck Master Garage had the following trial balances as on **30th June 2017**.

**DR**. **CR**.

Capital 330 000

Drawings 40 000

Opening stock: Tools 15 000

Petrol and oil 5 600

Spares 29 500 50 500

Private cars (for hire purposes) 477 000

Purchases: Tools 17 600

Spares 21 200

Petrol and oil 62 500 101 300

Advertising 10 000

Rent, Rates of lighting 68 000

Insurance: Hire cars 12 500

Burglary 2 000 14 500

Wages: Chauffeurs 165 000

Repairs department 70 000

Office 25 000

Garage 45 000 305 600

Sales: Petrol and oil 53 200

Spares 34 600 87 800

Receipts: Hiring 432 600

Repairs 154 200

Garaging 95 000 681 800

License for hire cars 14 500

Office expenses 29 600

Sundry debtors 9 500 53600

Sundry creditors 16 400

Commission on sold cars 34 000

Cash at bank 29 500

1 150 000 1 150 000

**Additional information;**

1. The stock on hand on 30th June was;

Tools 10 600

Petrol and oil 4 200

Spares 16 400

1. Petrol valued at Ksh. 34 000 and oil at 6 200 were used by the Hire Department, petrol valued at Ksh. 2 800 and oil at Ksh. 1 400 were used by the repairs department; private consumption was ksh. 1 600.
2. Repairs department performed work on private cars valued at Ksh. 23 400. In addition ksh. 4 000 worth of work was performed on the proprietors own car. Spares used by Repairs Department during the year were valued at ksh. 32 200.
3. Depreciation of private hire cars and repairs van at 20% p.a is to be provided.
4. Rent, rates and lighting are to be apportioned as follows;

Repairs department ¼ Garage ½

Hire department Office

1. The license of Ksh. 1000 and insurance Ksh. 1000 for the proprietors own car are included in the insurance and licenses paid by the business.
2. Advertising is to be allocated ksh 1000 each to petrol and spares and the remaining charged equally over the other department.

**Required**:

* 1. Prepare Departmental Statement of comprehensive income for the year ended 30th June 2016. **[15 marks]**
  2. Explain the difference between Redemption of shares and re-purchase of shares **[5 marks]**

**QUESTION TWO**

1. Explain the following terms in relation to insurance.
2. Co-insurance **[2 marks]**
3. Principal of Indemnity **[2 marks]**
4. Endowment Policy [**2 marks]**
5. Third party Policy **[2 marks]**
6. Re-insurance  **[2 marks]**
7. **K**aki and **N**ona 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 20,000** and **sh 15,000** respectively, interest on drawing is charged at 5% p.a. The trial balance as at 31st December 2016 after drawing profit and loss account was follows

**KAKI AND NONA PATNERSHIP**

**TRIAL BALANCE AS AT 31ST DECEMBER 2016**

|  |  |  |
| --- | --- | --- |
|  | **Dr**(000) | **Cr**(000) |
| Capital |  |  |
| Kaki |  | 500 |
| Nona |  | 400 |
| Current accounts: |  |  |
| Kaki |  | 20 |
| Nona |  | 10 |
| Drawings |  |  |
| Kaki | 225 |  |
| Nona | 215 |  |
| Net profit |  |  |
| Fixed Assets |  | 800 |
| Land/Buildings | 500 |  |
| Motor vehicle | 200 |  |
| Machines | 300 |  |
| Accumulated Depreciation |  |  |
| Land/Buildings |  | 100 |
| Machines |  | 50 |
| Motor Vehicle |  | 50 |
| Debtors | 100 |  |
| Stock | 200 |  |
| Cash | 290 |  |
| Creditors |  | 100 |
|  | **2 030** | **2 030** |

**Required;**

1. Prepare Kaki and Nona Profit and Loss appropriation account **[10 marks]**

**QUESTION THREE**

**Laula ltd** had the following balances as at 31st December,2017

|  |  |  |
| --- | --- | --- |
|  | **Dr** (000) | **Cr**(000) |
| Share capital |  | 5000 |
| Share premium |  | 1500 |
| Trade and other payables |  | 1872 |
| Land and Buildings | 8500 |  |
| Land and buildings depreciation |  | 424 |
| Plant and equipment | 5800 |  |
| Plant and equipment depreciation |  | 2900 |
| Trade and other receivables | 4235 |  |
| Prepayments | 15 |  |
| 5% bank loan repayable |  | 4000 |
| Cash and cash equivalents | 385 |  |
| Retained Earnings at 1/1/2017 |  | 3875 |
| Interest paid | 200 |  |
| Purchases | 12965 |  |
| Distribution costs | 5468 |  |
| Administrative cost | 2933 |  |
| Inventories at 1/1/2017 | 4285 |  |
| Dividends paid | 625 |  |
| Sales Revenue |  | 25840 |
|  | **45411** | **45411** |

Further information

1. The inventories at the close of business on 31st December,2017 costs **ksh 5,162,000**
2. Land which not depreciated is included in the trial balance at a value of **ksh 300,000**, it is revalued at **ksh 3,500,000** and this revaluation is to be included in the financial statements for the year 31st Dec 2017.
3. Depreciation is to be provided for the year as follows;
   1. .Buildings 2% p.a ,straight line method.
   2. .Plant/ Equipment, 5% p.a ,straight line method.
4. Depreciation is to be apportioned as follows;
   * 1. .Cost of sales 40%
     2. .Distribution costs 40%.
     3. .Administrative Expenses 20%
5. Trade receivables include debt of **ksh 10,000** which is to be written off. Irrevocable debts are to be classified as administrative expenses.
6. Distribution cost of **ksh 18,000** owing at 31st December 2017 was to be provided for.
7. The corporate tax charge for the year has been calculated as **ksh 1,475,000.**
8. All of the operations are continuing operations.

**Required:**

1. Draft the statement of comprehensive income for Laula ltd as at 31st December, 2017. **[10 marks]**
2. Draft the statement of financial position for Laula ltd as at 31st Dec 2017 **[10 marks]**

**QUESTION FOUR**

**A**ye and **B**ee are in partnership sharing profit and losses 60% and 40% respectively.Net profit for the year ended on 30th June, 2016 was **KSH 48000.** 1st July, 2015 the partners had the following balances

|  |  |  |
| --- | --- | --- |
|  | **Capital Account** | **Current Account** |
| Aye | Ksh 50000 | Ksh 2000 Cr |
| Bee | Ksh 30000 | Ksh 400 Cr |

**Additional Information**

1. There were no changes to the capital account during the year. Interest is allowed on partner’s capital at the rate eight percent per year.
2. Bee is entitled to a salary of ksh **16000** per year. On 30th September 2015(Half way through the year)
3. Partners’ drawings were made as follows: **Aye ksh 18000**

:**Bee ksh24 000**.

1. There were no other drawings.
2. Interest is charged on partner’s drawings at the rate of 10% per year.

**Required:**

1. Prepare appropriation account for the two **[10 marks]**
2. Differentiate clearly (indicating the contents of each), between memorandum of association and articles of association **[5 marks]**
3. Outline five possible reasons which may lead to dissolution of a limited company [**5 marks]**

**QUESTION FIVE.**

1. Discuss the following terms in relation to business studies
2. Limited liability **[2 marks]**
3. Insolvency **[2 marks]**
4. Privatization **[2 marks]**
5. Monopoly market structure **[2 marks]**
6. Amalgamation **[2 marks]**
7. Differentiate between ordinary shares and preference shares in relation to limited companies

**[2marks]**

1. Outline four demerits of a partnership business **[2 marks]**
2. Discuss four ways of classifying partners in a partnership business **[4 marks]**
3. Differentiate between bonus issues and right issues **[2 marks]**