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**GARISSA UNIVERSITY**

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

**THIRD TRIMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 116**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING 11**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 09/08/18 TIME: 09.00-12.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FOUR (4) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining THREE (3) 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)**

Xavier, Yvonne and Zablon are partners operating a business under the name XYZ. The trial balance for the partnership as at 31 March 2012 was as follows:

|  |  |  |
| --- | --- | --- |
|  | Sh.  | Sh. “000” |
| Capital accounts : Xavier,  Yvonne ZablonCurrent accounts : Xavier,  Yvonne ZablonGross profit Trade receivable and payable InsuranceStaff salaries Bank balance Advertising Inventory Furniture and fittings (cost)Carriage outwards Motors vehicles (cost)Provision of depreciation: Furniture and fittings  Motor vehicles Drawings Xavier,  Yvonne ZablonDiscount allowed and received Rent and rates Depreciation expenses for motor vehicles  | 40203,7401879601,3304308501,200372,30015320617980360190230**12,492** | 3,0001,5002,500903,0861,56020046096**12,492** |

**Additional information**

1. Interest on capital balance is allowed at 8% per annum
2. The advertising expenses include a payment of sh. 270,000 which was to cover half a year to 31 may 2012
3. Depreciation has been provided for motor vehicles at 10% on the cost amount. However depreciation on furniture and fittings is yet to be provided for at 20% on the net book values
4. Staff salaries outstanding as at 31 march 2012 were sh.50,000
5. The partnership had made the following transactions but not yet adjusted the relevant trial balance ledgers:
* Payment of trade payable of sh. 45,000 by cheque and sh.25,000 in cash
* The accountant had banked sh. 74,000
* Payment of rent expenses of sh. 42,000 by cheque
1. Xavier, Yvonne and Zabron were entitle to salaries of sh. 180,000, sh. 140,000 and sh. 160,000 respectively
2. Profit and losses are shared among Xavier, Yvonne and Zabron in the ratio of 3:1:2 respectively

**Required**

1. Income statement for the year ended 31 march 2012 **[15 marks]**
2. Partner’s current accounts as at 31 march 2012 **[5 marks]**
3. Statement of financial position as 31 march 2012 **[10 marks]**

**QUESTION TWO**

1. . Differentiate between the following
2. “Capital reserve” and “revenue reserve”. **[2 marks]**
3. “Authorized share capital” and “issued share capital”. **[2 marks]**
4. The following information was extracted from the books of Bin Limited as at 31st October 2010

|  |  |
| --- | --- |
|  | Sh ‘000” |
| Quoted investments Allowance for doubtful debts (1 November 2009)Directors remuneration Preference dividend paid Interim dividend paid Bank overdraft Rates, rent and insurance Revenue reserves)! November 2009) Office administration expenses Motor vehicle (cost sh. 1.4 million) Furniture and fittings (cost sh. *4.5* millionTrade payables 12% debentures Ordinary share capital of sh. 10 each 9% preference share capital of sh. 10 each Share premium account 1Carriage outwards Carriage inwards Salaries and wages Motor vehicle expenses Rent income Investment income inventory(1 November2009) Bad debts PurchasesSalesReturns inwards Return outwards Cash in hand Trade receivables General reserve (1 November 2009)  | 5,000 160 300 100 120 320 1901,065 160 1,010  2,300 240 1,000 3,000 2,000 1,500 530 470 1,300 320 1,200 940 2,120 185  5,600  10,800 210 160 1,190 2,480  1,200 |

**Additional information**

1. Inventory as at 31 October2010 was valued at sh.3, 200,000
2. Depreciation is to be provided as follows;

**Asset Rate per Annum Method**

Sh. Sh.

Furniture and fittings 5% Straight line
Motor vehicles 20% Reducing balance

1. Prepayments and accruals as at 31 October 2010 was as follows:

**Prepayments Accruals**

Wages 100,000
Auditor’s fees 120,000
Directors’ remuneration 20,000
Investment income 540,000
Carriage inwards 30,000

1. Corporation tax for the year ended 31 October 2010 was sh.278.000
2. Allowance for doubtful debts as at 31 October 201 0 was 145,000
3. The board of directors has approved the following;
* Final dividend of sh.0.5 per share
* Transfer of sh.285, 000 from the general reserve

**Required:**

1. Income statement for the year ended 3 1SI December 2010 **[8 marks]**
2. Statement of Financial Position as at 3 1 December 2006 [**8 marks]**

**QUESTION THREE**

The following is the receipts and payments account for Jamii Sports Club for the year ended 30 June 2014:

**Receipts and payments account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Sh. ‘000’** |  | **Sh. ‘000’** |
| Balance brought forward Bar takings Sale of sports equipment Fees collections Subscriptions Donations  | 4,280 12,600 1,200 5,620 18,800 4,200-46,700 | Club maintenance cost Travelling expenses Purchase of sports equipment Purchase of furniture Field expenses Salaries and wages Purchase of computers Bar purchases Water and electricity Bar wages. External coach's fee Secretary's honoraria Subscription refunds Bank balance Cash balance | 240 320 3,600 2,200 2,500 6,600 1,200 8,400820 1,400 2,400 6,200200 8,000 2,62046,700 |

**Additional information:**

1. The following balances were available:

|  |  |  |
| --- | --- | --- |
|  | **30 June 2013 Sh. ‘000’** | **30 June 2014 Sh. ‘000’** |
| Subscriptions in advance Subscriptions in arrears Club house Sports equipment Furniture and fittings Computers Accumulated depreciation: * Sports equipment
* Furniture and fittings
* Computers

Bar receivables Bar payables Bar wages due Secretary’s honoraria due Bar inventory  | 1,200 2,20014,000 6,800 2,4001,2002,800800300-8001803501,800 | 1,8002,40014,000??????1,2001,0001002402,200 |

1. Sports equipment disposed of had been purchased at a cost of Sh.1, 800,000 and had a net book value of Sh.1, 260,000.
2. Depreciation is to be provided on cost of existing assets as follows:

|  |  |
| --- | --- |
| **Asset** | **Rate per annum (%)** |
| Club house Sports equipment Computer Furniture and fittings  | 2.5102010 |

1. All the new furniture and fittings relate to the bar, while the old furniture and fittings relate to the club house.
2. During the year, bar stock stolen amounted to Sh.80, 000. This has not been accounted for.

**Required:**

1. Bar income statement for the year ended 30 June 2014. **[4 marks]**
2. Income and expenditure account for the year ended 30 June 2014. **[8 marks]**
3. Statement of financial position as at 30 June 2014. **[8 marks]**

**QUESTION FOUR**

1. Summarise four limitations of ratio analysis. **[3 marks]**
2. The following financial statements were extracted from the books of Majengo Ltd. for the year**s** ended 31 December 2012 and 2013:

**Income statements for the years ended 31 December:**

|  |  |  |
| --- | --- | --- |
|  | **2012** | **2013** |
|  | **Sh. ‘000’** | **Sh. ‘000’** |
| Sales (all on credit) Cost of sales Gross profit ExpensesNet profitDividendsRetained profit Balance carried forward Balance brought forward | 200,000(120000)80,000(60,000)20,00020,000-25,00025,000 | 200,000(100,000)100,000(60,000)40,000(20,000)20,00025,00045,000 |

**Statements of financial position as at 31 December:**

|  |  |  |
| --- | --- | --- |
|  | **2012** | **2013** |
|  | **Sh. ‘000’** | **Sh. ‘000’** |
| **Non-current assets:** Land Plant and machinery at cost Buildings at cost Investments at cost **Current assets:** Inventory Trade receivables **Current liabilities:** Trade payables Proposed dividend Bank balance **Net current assets** **Net assets** Financed by: Ordinary share capital Share premium Revaluation reserve Revenue reserve 10% debentures  | 63,0006,00079,00080,000228,00065,00050,000115,00060,00020,0004,000(84,000)31,000259,00050,00014,00020,00025,000150,000259,000 | 44,0008,50060,00053,000165,50055,00040,00095,00040,00020,0002,500(62,500)32,500198,00040,00013,00045,000100,000198,000 |

**Additional information:**

1. Ordinary shares with a nominal value of Sh.1 0,000,000 were repurchased at a premium during the year. All necessary approvals were obtained for this transaction.
2. Part of the debentures was redeemed at par during the year.
3. Ignore taxation.

**Required:**

The following ratios for Majengo Ltd. for the years ended 31December 2012 and 2013:

1. Gross profit margin. **[3 marks]**
2. Net profit margin. **[3 marks]**
3. Trade receivables turnover. **[3 marks]**
4. Acid test ratio. **[2 marks]**
5. Dividend cover. **[2 marks]**
6. Gearing ratio. **[2 marks]**
7. Return on capital employed **[2 marks]**