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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  Zablon  Current accounts : Xavier,  Yvonne  Zablon  Gross profit  Trade receivable and payable  Insurance  Staff 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  Zablon  Discount allowed and received  Rent and rates  Depreciation expenses for motor vehicles | 40  20  3,740  187  960  1,330  430  850  1,200  37  2,300  153  206  179  80  360  190  230  **12,492** | 3,000  1,500  2,500  90  3,086  1,560  200  460  96  **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* million  Trade payables  12% debentures  Ordinary share capital of sh. 10 each  9% preference share capital of sh. 10 each  Share premium account 1  Carriage outwards  Carriage inwards  Salaries and wages  Motor vehicle expenses  Rent income  Investment income  inventory(1 November2009)  Bad debts  Purchases  Sales  Returns inwards  Return outwards  Cash in hand  Trade receivables  General reserve (1 November 2009) | 5,000  160  300  100  120  320  190  1,065  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  8,400  820  1,400  2,400  6,200  200  8,000  2,620  46,700 |

**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  2,200  14,000  6,800  2,400  1,200  2,800  800  300  -  800  180  350  1,800 | 1,800  2,400  14,000  ?  ?  ?  ?  ?  ?  1,200  1,000  100  240  2,200 |

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 | 2.5  10  20  10 |

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  Expenses  Net profit  Dividends  Retained profit  Balance carried forward  Balance brought forward | 200,000  (120000)  80,000  (60,000)  20,000  20,000  -  25,000  25,000 | 200,000  (100,000)  100,000  (60,000)  40,000  (20,000)  20,000  25,000  45,000 |

**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 | 63,000  6,000  79,000  80,000  228,000  65,000  50,000  115,000  60,000  20,000  4,000  (84,000)  31,000  259,000  50,000  14,000  20,000  25,000  150,000  259,000 | 44,000  8,500  60,000  53,000  165,500  55,000  40,000  95,000  40,000  20,000  2,500  (62,500)  32,500  198,000  40,000  13,000  45,000  100,000  198,000 |

**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]**