**GARISSA UNIVERSITY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BBM 213: FINANCIAL ACCOUNTING 1**

**MAIN EXAMINATION AUGUST 2021**

**Instructions: Answer Question ONE and Any other TWO Questions from Section B**

**QUESITON ONE**

1. Define the term royalty and explain three types of royalty in accounting **[8 marks]**
2. Discuss the importance of using financial ratio analysis in the evaluation of the performance of a company. **[7 marks]**
3. Given below is the trial balance of ADC Farm Ltd as at 31 December 2018:



The following additional information is provided:

1. On 31 December 2018, the value of stocks were as given below:

|  |  |
| --- | --- |
|  | **Sh.000’** |
| Livestock  Feeding materials  Growing crops, wheat, seeds and fertilisers | 240  130  20 |

1. Depreciation expenses on tools and implements are apportioned equally between livestock and crop activities.
2. Farm machinery is depreciated at the rate of 5% per annum on cost.
3. Manager’s salary and staff meals should be divided between livestock and crop activities in the ratio 3:2 respectively.

**Required:**

1. Livestock account for the year ended 31 December 2018. **[5 marks]**
2. Crop account for the year ended 31 December 2018. **[5 marks]**
3. Statement of financial position as at 31 December 2018. **[5 marks]**

**QUESTION TWO**

1. Discuss five limitations of financial ratios**[10 marks]**
2. The Statement of financial position for Garissa Traders for the years ended 31 December, 2017 and 31 December 2018 were summarized and shown below:

**2018 2017**

**Non-Current Asset Ksh Ksh**

Premises 10,000 10,000

Fixtures 17,000 11,000

Vehicles 12,500 8,000

**Current assets**

Stock 17,000 14,000

Debtors 8,000 6,000

Bank and cash 23,000 29,500

**Total Assets 87,500 78,500**

**Current liabilities**

Trade creditors 4,000 2,500

Taxation 1,500 1,000

Proposed dividends 2,000 1,000

**Financed by:**

Ordinary shares of Ksh. 1 per share 60,000 50,000

Reserves

Profit and Loss 5,000 4,000

**Non-Current liabilities**

10% debentures 15,000 20,000

**Total Equity & Liabilities 87,500 78,500**

**Note:** The 10% debentures were redeemed and cancelled on 31 December 2018

**Statement of financial performance for the year ended 31 December 2018:**

**Ksh Ksh**

Turnover 36,250

Cost of sales (21,750)

Gross profit 14,500

Profit on disposal of vehicles 700

**15,200**

**Less:**

Wages and salaries 1,600

Other (cash) expenses 3,600

Depreciation 3,500

Debenture interest 2,000

10,700

Profit before tax 4,500

Less: Tax 1,500

Profit after tax 3,000

Less: Proposed dividends (2,000)

Retained profit: for year 1,000

: Brought forward 4,000

: Carried forward  **5,000**

**Cash book for the year ended 31 December 2018**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Bank**  **Ksh** | **Cash**  **Ksh** |  | **Bank**  **Ksh** | **Cash**  **Ksh** |
| Opening balance b/d  Receipts from debtors  Receipts from fixed asset disposals – vehicles  Ordinary share issue  Transfer from cash | 25,300  30,500  1,200  10,000  4,650  \_ | 4,200  3,750  500  -  -  \_ | Payment to trade creditors  Wages, salaries  Other expenses  Debenture interest  Fixed assets  fixtures  vehicles  Tax paid  Dividends paid  10% debentures: redeemed  Transfer to bank  Closing balances c/d | 23,250  700  2,400  2,000  7,000  8,000  1,000  1,000  5,000  21,300 | -  900  1,200  -  -  4,650  1,700 |
|  | **71,650** | **8,450** |  | **71,650** | **8,450** |
| Opening balances b/d | 21,300 | 1700 |  |  |  |

**Required:**

Cash flow statement for the year ended 31 December 2018 **[10 marks]**

**QUESITON THREE**

1. Explain the reasons why a company would not wish to distribute all its profits to its shareholders. **[5 marks]**
2. The trial balance of Plastics Ltd as at 31 October 2014 is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Sh.’000** | **Sh.’000** |
| Ordinary shares of Sh.50 each |  | 10,000 |
| 10% preference shares of Sh.100 each |  | 9,000 |
| 10% debentures |  | 8,000 |
| Land and buildings (net book value) | 25,000 |  |
| Plant and machinery (net book value) | 8,000 |  |
| Motor vehicles (net book value) | 2,000 |  |
| Inventory | 6,000 |  |
| Accounts receivables and payables | 20,000 | 19,000 |
| Cash at bank | 4,100 |  |
| Capital redemption reserve |  | 6,000 |
| Share premium |  | 4,000 |
| Retained profits as at (November 2003) |  | 3,000 |
| Debenture interest | 400 |  |
| Preference dividend | 450 |  |
| Gross profit |  | 25,000 |
| Other operating income |  | 4,000 |
| Administrative expenses | 13,000 |  |
| Distribution costs | 6,000 |  |
| Other operating expenses | 1,550 |  |
| Interim ordinary dividend paid | 2,000 |  |
| Corporation tax | \_\_\_\_\_ | \_\_500 |
|  | 88,500 | 88,500 |

**Additional information:**

1. A building whose net book value is currently Sh.5 million is to be revalued to Sh.9 million
2. A final ordinary dividend of Sh.2 million is proposed.
3. The balance on the corporation tax for the current year is estimated at Sh.3 million.

**Required:**

Prepare the following accounts as per the companies act:

1. A Statement of financial performance for the year ended 31 March 2014. **[8 marks]**
2. A statement of financial position as at 31 March 2014. **[7 marks]**

**QUESTION FOUR**

1. Explain the meaning of the following terms as used in cash flow statement
2. Cash equivalents **[3 marks]**
3. Financing activities **[3 marks]**
4. Discuss the two methods used in preparing the cash flow statement **[4 marks]**
5. The following balances were extracted from the books of Kenya Bank Limited as at 31 December 2017:

|  |  |
| --- | --- |
|  | **Sh. ‘000’** |
| Cash and balances with the Central Bank | 7,439 |
| Interest on loans and advances | 3,197 |
| Government securities | 21,570 |
| Interest on customer deposits | 194 |
| Loans and advances to customers | 58,894 |
| Interest on deposits and placements paid to banking institutions | 33 |
| Property and equipment | 1,487 |
| Other assets | 16,200 |
| Interest on placements received from banking institutions | 66 |
| Customer deposits | 81,947 |
| Borrowed funds | 2,641 |
| Other liabilities | 4,211 |
| Interest on government securities | 430 |
| Share capital | 2,000 |
| Reserves | 8,347 |
| Specific provision for bad and doubtful debts brought forward | 2,635 |
| General provision for bad and doubtful debts brought forward | 150 |
| Non interest income | 3,079 |
| Staff costs | 1,461 |
| Other expenses | 1,425 |
| Liability for acceptances on behalf of customers | 14,776 |

**Additional Information:**

1. An additional provision for non-performing loans and advances of Sh.1,259, 000 is to be made.
2. The general provision for bad and doubtful debts is to be maintained at 1% of net loans and advances to comply with guidelines issued by the Central Bank.
3. Provide for corporation tax at the rate of 30% on profits.
4. Provide for a final dividend of 30%.

**Required:**

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

**QUESITON FIVE**

1. Briefly explain the salient features of farm accounting **[5marks]**
2. Define the following terms and explain how they are treated in the financial statements of an insurance company:
3. Authorized share capital **[2 marks]**
4. Paid-up capital **[2 marks]**
5. Issued share capital **[2 marks]**
6. Preference share capital **[2 marks]**
7. Ordinary share capital **[2 marks]**