



MUEO

MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS 2012/2013 ACADEMIC YEAR

SECOND YEAR END OF SEMESTER II EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 201

EXAM TITLE: FINANCIAL ACCOUNTING I

DATE: 20TH MARCH, 2013

TIME: 2.00 P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ **ATTEMPT ANY FOUR QUESTIONS**

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COURSE CODE: BBM 201

COURSE TITLE: FINANCIAL ACCOUNTING 1

MAIN EXAMINATION ACADEMIC YEAR 2012/2013

Instruction to Candidates: Answer any FOUR Questions. All Questions Carry equal Marks.

QUESTIONS ONE

- a) A business enterprise could be enjoying a lot of profits but at the same time suffering from insolvency and vice versa. Discuss this assertion (6 Marks)
- b) The summarized annual financial statements of Raiply Ltd for 2012 and 2011 are as follows:

Balance Sheet as at:

	31 st December 2012 Shs.	31 st December 2011 Shs.
Plant and Machinery	330,000	295,000
Stock	60,000	50,000
Debtors	30,000	25,000
Prepayments	5,000	10,000
Cash	<u>15,000</u>	<u>20,000</u>
	<u>440,000</u>	<u>400,000</u>
Creditors	20,000	25,000
Accrued expenses	15,000	10,000
Provision for taxation	30,000	25,000
Issued share capital (shs.1)	240,000	220,000
Retained profits	<u>135,000</u>	<u>120,000</u>
	<u>440,000</u>	<u>400,000</u>

Income Statement for the year ended 31st December 2012

	Shs
Sales	480,000
Cost of Sales	<u>(330,000)</u>
Gross operating profit	150,000
Operating expenses (including depreciation of Shs.10,000)	<u>(75,000)</u>
Net profit before taxation	75,000
Provision for taxation	<u>(35,000)</u>
Net Profit for the year	<u>40,000</u>

Required

Prepare a Cashflow statement in accordance with IAS 7 for the year ended 31st December 2012

(14 Marks)

(Total 20 Marks)

QUESTION TWO

The following is the Trial balance of Consolidated Bank as at December 31st 2012.

	Dr.	Cr
	Shs.	Shs.
Ordinary shares of (Shs. 1. each fully paid)		1,000,000
Reserves		150,000
Loans	670,000	
Premises	100,000	
Government Securities	800,000	
Current Deposits		300,000
Fixed Deposits		250,000
Saving deposit		150,000
Salaries	56,000	
General expenses	54,800	
Rent and rates	4,600	
Directors fees	3,600	
Profit and loss a/c (January 1 2012)		32,000
Interest and discount		356,000
Stationery	17,000	
Bills Purchased and discounted	92,000	
Interim dividend paid	34,000	
Recurring deposits		40,000
Investment in shares	100,000	
Cash in hand and with Central Bank	286,000	
Money at Call and Short notice	<u>160,000</u>	
	<u>2,378,000</u>	<u>2,378,000</u>

Additional information:

- Provision for bad and doubtful debts amounts to Shs.1,000,000
- Interest earned was Shs.16,000,000.
- Unexpired discount amounts to Shs.760,000

- d) Endorsements made on behalf of customers totaled Shs 230 million
- e) Authorized capital is 16million ordinary shares of Shs.100each.
- f) Market value of Government securities is Shs 780million.

Required

- i. Income Statement of Consolidated Bank for the year ended 31st Dec. 2012 (12 marks)
 - ii. Balance sheet as that date (8 Marks)
- (Total 20 Marks)**

QUESTION THREE

From the accounting point of view, explain the following insurance terminologies;

- a) Endowment policy (3 Marks)
- b) Life Insurance (2 Marks)
- c) Annuities (3 Marks)
- d) Assignment (3 Marks)
- e) Bonus in reduction of premium (3 Marks)
- f) Claims (3 Marks)
- g) Reserve for unexpired risks (3 Marks)

(Total 20 Marks)

QUESTION FOUR

The following balances remained in the books of Ng'etuny Ltd. as at 31st December 2012 after the preparation of the trading account:

	Shs
Issued share capital:	
1,200,000 Sh. 20 ordinary shares	24,000,000
400,000 8% Sh. 20 preference shares	8,000,000
Stock – 1 January 2012	16,770,000
Accounts receivable	5,440,000
Accounts payable and accruals	2,744,400
Balance at bank	1,559,200
5% Debentures	3,200,000
General reserve	5,600,000
Bad debts	68,000
Gross profit for the year	16,301,600
Salaries and wages	5,640,000
Rates and Insurance	282,000
Postage and Salaries	124,000

Water and Electricity	243,200
Debenture Interest	160,000
Directors' fees	500,000
General expenses	621,600
Motor vehicles (Cost Shs.5, 820,000)	1,360,000
Office fittings and equipment (Cost Shs.8, 928,000)	5,488,000
Land and buildings (Cost)	26,440,000
Profit and loss account-31 st December 2011	4,850,400

Additional information:

1. A bill for Sh. 109,600 in respect of electricity for the period up to 31st December 2011 has been accrued.
2. The amount for insurance includes a premium of Sh. 120,000 paid in September 2012 to cover the company for six months, October 2012 to March, 2013.
3. Office fittings and equipment are to be depreciated at 7.5% per annum on cost and motor vehicles at 10% per annum on cost.
4. Provision is to be made as follows:
 - Directors' fees - Sh. 1,000,000
 - Audit fee - Sh. 240,000
5. The directors have recommended that:
 - A sum of Sh. 2,400,000 be transferred to general reserve.
 - The preference dividend be paid and a 5% ordinary dividend be paid.

Required:

- (a) Income Statement for the year ended 31st December 2012 (10 marks)
- (b) Balance sheet as at 31st December 2012 (10 marks)

(Total 20 Marks)

QUESTION FIVE

- a) Identify and explain the accounts required in recording royalties. (8 Marks)
- b) The lease of a plot of land is granted to TMC Ltd by a Multinational company upon the basis of a royalty of Shs.10 per ton on the clay extracted; subject to a minimum rent of Shs. 20,000 per annum. TMC Ltd has a right to recoup short workings in any of the three years immediately following that in which short workings accrued. The output in tons for TMC Ltd was as follows:

<u>Year</u>	<u>output (tons)</u>
2005	100,000

2006	160,000
2007	200,000
2008	250,000
2009	260,000
2010	200,000
2011	220,000
2012	300,000

Required:

From the figures above, prepare in the books of TMC Ltd:

- i. Royalty account
- ii. Land lord's account
- iii. Short workings account

(12 Marks)

(Total 20 Marks)

QUESTION SIX

a) Explain the accounting treatment of the following information as used in farm accounting.

- i. Agricultural crops and farm products consumed by the family members. (2 Marks)
- ii. Labour for the farm provided by the family members (2 Marks)
- iii. The output of a farming activity used as input of another farming activity (2 Marks)

b) Explain the significance of the following ratios in decision making.

- i. Current ratio (2 Marks)
- ii. Gross profit to sales (2 marks)
- iii. Debt equity ratio (2 marks)
- iv. Stock turn over (2 Marks)
- v. Dividend pay-out ratio (2 Marks)
- vi. Return on Investment (2 Marks)
- vii. Sales/fixed assets ratio (2 Marks)

(Total 20 Marks)

*****END*****