



UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGEMENT**

AGBM 211: FINANCIAL ACCOUNTING

STREAM: BSC. (AGBM)Y2S1

TIME: 2 HOURS

DAY/DATE: THURSDAY 29/7/2010

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

Answer all questions. Do not write on the question paper. Show all your workings.

1. Having concluded the course AGBM 211, your father calls you home and requests for your assistance in reviewing the books of account for his advertising agency, Tangaza Investments. The accountant presents the following scenarios to you:
 - (a) Tangaza receives most of its revenue in 12 months subscriptions for its monthly magazine, Amka. Even though this subscription revenue has already been received in cash, the accountant recognizes subscription revenue on a monthly basis as the monthly issues of the magazines are mailed to subscribers.
 - (b) Due to the relocation of a former Kenyan citizen to the US, Tangaza was able to buy furniture worth Ksh.500,000 for the bargain price of Ksh.400,000. To reflect the benefit of this bargain purchase in the financial statements, the accountant recorded the assets at a cost of Ksh.500,000 and reported a gain on purchase of furniture amounting to Ksh.100,000.
 - (c) During the year, Tangaza built a studio for producing promotional pictures for its clients. All materials used in this project that had a value of less than Ksh.2000 were expensed. The accountant argues that these items were not material. The total cost of items expensed was Ksh.250,000. The studio cost excluding items expensed totaled to Ksh.300,000.

- (d) In order to strictly adhere to the matching principle, the accountant established the 'useful life' standards for all types of expenditures. For example, advertising expenditures are amortized over 24 months, costs of employee training programmes, 7 years and research and development costs, 15 years.
- (e) In January 2010, the main printing machine was destroyed by fire. Since this happened in 2010, no loss was shown on the income statement for the period ending 31st December 2009. However, the event was disclosed in the notes to the financial statements for the year ending 31st December 2009.

For each of the above scenarios, do you think the accountant acted in conformity with the generally accepted accounting principles? If yes explain why stating the principle in place and if no, explain which principle has been violated and how the situation should be remedied. [20 marks]

2. (a) The journal is a complete waste of time and accountants should not waste their time in preparing it. Discuss. [10 marks]
- (b) The following entries have been passed by an intern whom you are mentoring.

No.	Particulars	Folio	Dr Amount	Cr Amount
1.	Cash Interest Expense (Being interest paid on borrowings)		10,000	10,000
2.	Sales a/c Accounts receivable (Being amounts received from a debtor)		12,000	12,000
3.	Accounts receivable Sales a/c (Being sales made on credit)		22,000	22,000
4.	Zainabu a/c Salaries & Wages a/c (Being salary paid to Zainabu)		8,000	8,000
5.	Drawing a/c Furniture a/c (Being furniture taken for personal use)		5,000	5,000
6.	Repairs a/c Cash a/c (Being payment for accrued expenses on repairs initially recorded)		7,500	7,500

7.	Capital a/c Equipment a/c (Being equipment introduced by the owner into the business)		9,000	9,000
8.	Cash a/c Stores supplies a/c Being store supplies bought on cash		3,000	3,000

State whether these entries are correct or incorrect. For the incorrect ones, write up the correct journal entries. [20 marks]

3. The final accounts of Kilimanjaro Limited for the last financial year are as follows:

Income Statement

		2009 Ksh.'000'
Sales		311,000
Opening stock	15,000	
Purchases	110,000	
Closing stock	<u>(61,000)</u>	
Cost of Sales		<u>(64,000)</u>
Gross Profit		247,000
Expenses:		
Depreciation		(25,000)
Marketing		(36,000)
Administration		(14,000)
Salaries		(45,000)
Insurance		(9,000)
Interest		<u>(6,000)</u>
Profit before tax		112,000
Tax		<u>(33,000)</u>
Profit after tax		79,000
Dividends		<u>(30,000)</u>
Retained profit for the year		<u>49,000</u>

Balance Sheet

Land	623,000
Buildings	111,000
Machinery	<u>68,000</u>
	802,000

Current Assets:	
Inventories	56,000
Accounts Receivable	86,000
Prepaid Advertising	5,000
Prepaid Insurance	9,000
Cash	<u>45,000</u>
	<u>1,003,000</u>
Ordinary share capital (Ksh.25 par)	500,000
Accumulated profits	150,000
Long-term liabilities:	
30 year loan from Akiba Bank	150,000
Debenture loan	93,000
Current liabilities:	
Accounts payable	65,000
Unearned Revenue	10,000
Accruals	<u>35,000</u>
	<u>1,003,000</u>

Notes:

1. Analysis of sales and purchases revealed that on average 80% were made on a credit basis.
2. Closing accounts receivable and accounts payable figures may be taken as representative of averages for the year.
3. The market price of the shares at the balance sheet date was established at Ksh.28.00.

Required:

Calculate the following ratios [20 marks]

- (a) Current ratio
- (b) Quick acid
- (c) Average payment period
- (d) Average collection period
- (e) Debt to Equity ratio
- (f) Debt to Total Assets
- (g) Profit Margin
- (h) Return on Total Assets
- (i) Earnings per Share
- (j) Price Earning ratio.

4. (a) The following is the unadjusted trial balance for Kazi Limited as at 31st December 2009.

	Dr. Ksh'000'	Cr. Ksh.'000'
Cash	28,770	
Accounts receivable	77,000	
Allowance for bad debts		3,500
Inventories	66,000	
Prepaid Insurance	4,170	
Prepaid rent	75,000	
Land at cost	62,300	
Buildings at cost	111,000	
Accumulated Depreciation (Buildings)		14,800
Equipments at cost	33,600	
Accumulated Depreciation (Equipment)		5,600
Accounts payable		103,000
Share capital		210,000
Accumulated Profit		21,930
Sales		311,000
Advertising	27,750	
Insurance	10,800	
Purchases	111,440	
Salary	53,500	
Interest	<u>8,500</u>	
	<u>669,830</u>	<u>669,830</u>

Additional information:

1. Actual advertising costs amounted to 1,850,000 per month. The company has already paid for advertisements in Tangaza Magazine for the 1st quarter of 2010.
2. It's the company's policy to depreciate all its fixed assets on a straightline basis except for land. The buildings and equipment were bought on 1st January 2007 and they have an estimated useful life of 15 years and 12 years respectively.
3. Ksh.900,000 which was advanced to a salesperson on 31st December 2009 was charged to salary expenses. This amount relates to his January pay.

4. One of the company's customers has been declared bankrupt and it has been established that the Ksh.2,700,000 due from him will never be collected. This has not been recorded. In addition the company estimates that 5% of the accounts receivable balance on 31st December 2009 will become uncollected.

Required:

Prepare the Income Statement for Kazi Limited for the year ended 31st December 2009 and the Balance Sheet as at that date. [20 marks]

- (b) Explain in detail the modifying principles (constraints) of accounting information. [10 marks]
