a) Jubilation insurance company co.ltd is a well known fire risk insurance company having started business in the early 1980’s . Its accounts are made up to 31st December each year.The balances given have been extracted from the books of accounts of as at 31st dec 2016

claims paid 480,000

Outstanding claims on 1st January 2016 40,000

Claims intimated and accepted, but not paid 50,000

Premiums received 1,200,000

Re-insurance premiums paid 120,000

Commissions 200,000

Commission on re- insurance accepted 4,000

Commission on re- insurance ceded 8,000

Expenses of management 302,000

Provision of unexpired risk on 1st Jan 2016 400,000

Additional provisions for unexpired risks on 1st Jan 2017 20,000

Bonus utilized in reduction premiums 12,000

Re- insurance recoveries of claim 8,000

Medical expenses regarding claims 5,000

Loss on sale of motor car 3,500

Bad debts 2,500

Refund on double taxation 4,500

Interests and devidends 8,000

Income tax deducted thereon 1,500

Legal expenses regarding claims 4,000

Profit on sale of investment 3,500

Rent of staff quarters deducted from salaries 2,400

Depreciation of furniture 4,600

The management would wish to provide for additional reserves for unexpired risks of 1% of the net premiums In addition to the opening balances of the additional reserves

Required

Prepare a revenue account in respect of Fire insurance business carried out by jubilation insurance co.ltd for the year ennded31st Dec 2016 (20mks)

b) Explain how the concept of “self insurance” works in business (5mks)

QUESTION TWO

New steels limited obtained a lease from Olds Coals ltd for a coal mine on 1st Jan 2015 under lecence for six years with the following terms and conditions

1) Royalty at $1 per tonne raised

2) Minimum rent $24,000 per annum

3) A right to recoup shortworkings in the following three years.

The output in the first four years of the lease was 15,000 tonnes, 22,000 tonnes, 27,000 tonnes and 31,000 tonnes respectively.

Required

Prepare the necessary accounts in the books of the lessee. (15mks)

QUESTION THREE

Explain in details each of the following

a) Importance of cash flow statement (5mks)

b) Sources of cash from the following giving relevant examples in each case

i) Financing activities (5mks)

ii) Investing activities (5mks)

QUESTION FOUR

The summarized accounts of Mwangaza Ltd for the year ended 2015 and 2016 are as follows

2016 2015

Balance sheet

Investment at cost 16,000 10,400

Land 12,600 8,800

Plant and machinery 2,200 2,000

Building at cost 18,000 10,000

Stock 13,000 11,000

Debtors 10,000 8,000

Bank ----- 200

71,800 50,400

Ordinary shares sh .20 each 10,000 8,000

Share premiums 2,800 2,600

Revaluation reserves 4,000 ------

Profit and loss account 5,000 5,000

10% debentures 30,000 20,000

Accumulated depreciation

Plant and machinery 1000 800

Buildings 2,200 2,000

Creditors 12,000 8,000

Proposed dividend 4,000 4,000

Bank 800 -----

71,800 50,800

Profit and loss account

Sales 40,000 40,000

Cost of sales 24,000 20,000

Expenses 12,000 12,000

Dividends 4,000 4,000

Balance b/f 5,000 1,000

Balance b/d 5,000 5000

Required

a) Calculate for mwangaza ltd for 2015 and 2016 the following ratios

i) Gross profit ratio (2mks)

ii) Net profit ratio (2mks)

iii) Debtors turnover (3mks)

iv) Creditors turnover (3mks)

v) Current ratio (2mks)

vi) Quick assets ratio (3mks)

QUESTION FIVE

Explain the following regarding for contracts

i) Main features of contract accounts (5mks)

ii) Format of contract ledger account (5mks)

iii) Main uses of contract accounting (5mks)

END