



UNIVERSITY OF KABIANGA

**UNIVERSITY EXAMINATIONS
2016/2017 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER EXAMINATION**

**FOR THE DEGREE OF
BACHELOR OF ARTS (ECONOMICS)**

COURSE CODE: ECO 103

COURSE TITLE: FINANCIAL ACCOUNTING I

DATE: 14TH DECEMBER, 2016 TIME: 2.00 P.M. – 5.00 P.M.

INSTRUCTIONS TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF (6) PRINTED PAGES

PLEASE TURN OVER

SCHOOL OF BUSINESS AND ECONOMICS

Second Year, First Semester, Academic Year 2016/2017

Bachelor of Arts (Economics) Main Examinations

ECO 103: FINANCIAL ACCOUNTING 1 (September – December 2016)

Instruction: Answer question ONE [COMPULSORY] and any other THREE questions.

TIME: 3 HOURS

Question One [25 marks]

(5 marks)

- a. Explain what a rights share issue is and its benefit to the issuing company.
 b. Araka Ltd., a company dealing in retail products, extracted from the following trial balance as at 30 September 2005:

	Shs. '000'	Shs. '000'
Freehold land: Cost	121,500	
Buildings: Cost	431,000	
Accumulate depreciation		68,960
Plant and machinery: Cost	64,172	
Accumulated depreciation		16,074
Sales		1,312,567
Purchases	839,004	
Cash in hand	1,268	
Creditors ledger control account		21,172
Electricity	6,917	
Ordinary share capital		50,000
Cash at bank	1,210	
Debtors ledger control account	61,074	
Suspense account	4,300	
Inventory as at 1 October 2004	41,912	
Retained profits		296,057
Motor vehicle expenses	4,174	
Sundry expenses	2,002	
Salaries and wages	121,600	
Directors remuneration	48,999	
Bank charges	1,621	
Motor vehicles: Cost	28,900	
Accumulated depreciation		14,712
	<u>1,779,542</u>	<u>1,779,542</u>

Additional information:

1. Provision for doubtful debts should be made at 2% of the debtors ledger balances after writing of bad debts amounting to Shs. 1,370,000.

2. The suspense account was analysed as follows:

	Shs. '000'	Shs. '000'
Bad debts written off during the year		512
Motor vehicle purchased on 1 April 2005		7,400
		7,912
Less: motor vehicle sold on 1 April 2005	3,000	
Amounts received in respect of a bad debt recovered	<u>612</u>	<u>(3,612)</u>
		<u>4,300</u>

3. The motor vehicle sold during the year had been purchased on 1 February 2002 for Sh.6,500,000.
 4. Bank statement as at 30 September 2005 showed bank charges of Sh.533,000. This had not been recorded in the cash book.
 5. The debtors ledger control account did not agree with the list of balances in personal accounts. You ascertain that some invoices for October 2005 had been posted in the personal accounts as at September 2005. The list of balances was overstated by Sh.4,300,000.
 6. Estimated corporation tax for the year ended 30 September 2005 was Sh.131,700,000.

7. The value of inventory as at 30 September 2005 was amounted to Sh.62,047,000.
 8. The directors proposed to pay ordinary dividend of 10%.
 9. The following petty cash expenditure had not been recorded:

	Shs. '000'
Motor vehicle expenses	412
Sundry expenses	91
Casual workers wages	36

10. Depreciation is provided at the following rates:
 Buildings- 2% per annum on cost
 Plant and machinery – 20% per annum on reducing balance basis.
 Motor vehicle – 25% per annum on cost
 Full year's depreciation is provided in the year of purchase and none in the year of disposal.

Required:

- a) Statement of comprehensive income for the year ended 30 September 2005. (12 marks)
 b) Statement of financial position as at 30 September 2005 (8 marks)

Question Two [15 marks]

- a) Explain the following accounting systems generally used in construction contract: (2 marks)
 i) Escalation clause. (2 marks)
 ii) Cost plus contract
 b) The following are extracts from the financial statements of Tamu Ltd. As at 31 March:

	2012	2011	
	Sh.'000'	Sh.'000'	Sh.'000'
Fixed assets:			
Goodwill		2,800	2,900
Freehold land and building		16,800	12,000
Plant and machinery (NBV)		5,860	6,350
Investment at cost		<u>3,600</u>	<u>3,750</u>
		29,060	25,000
Current assets:			
Stocks	10,050	8,700	
Accounts receivable	6,140	7,800	
Investments	1,710	840	
Cash at hand and bank	<u>200</u>	<u>430</u>	
	18,100	17,770	
Current liabilities			
Bank overdraft	(2,390)	(6,540)	- 5850
Accounts payable	(5,850)	(5,250)	- 5250
Proposed dividends	(450)	(380)	
Taxation	<u>(820)</u>	<u>(600)</u>	
	(9,510)	(12,770)	
Net current assets		<u>8,590</u>	<u>5,000</u>
		37,650	30,000
15% debentures		<u>(7,500)</u>	<u>(9,000)</u>
		30,150	21,000
Capital and reserves:			
Authorised, issued and paid Sh.10			
Ordinary shares		18,000	15,000
Share premium		1,500	750
Revaluation reserve		4,500	-
Retained profit		<u>6,150</u>	<u>5,250</u>

30,150

21,000

The profit and loss appropriation account for the year ended 31 March 2012 is given below:

	Sh.'000'	Sh.'000'
Net profit before tax		2,400
Less: Corporation tax		<u>900</u>
Profit after tax		1,500
Dividends:		
Interim (paid)	150	
Proposed (paid)	<u>450</u>	<u>600</u>
		<u>900</u>

The following additional information is provided:

1. Profit for the year is arrived at after charging:

	Sh.'000'
Depreciation on plant and machinery	1,150
Goodwill amortisation	420

2. During the year, plant with a net book value of Sh.750,000 was sold for Sh.1,470,000. The plant had originally cost Sh.3,000,000.
3. The investments portfolio was reduced by selling one block of shares at a profit of sh.160,000.

Required:

Cash flow statement in accordance with IAS 7.

(11 marks)

Question Three [15 marks]

Tengo Insurance Company Ltd. Engages in general insurance business. The following trial balance was extracted from its books as at 31 March 2004.

Trial balance as at 31 March 2004

	Sh.'000'	Sh.'000'
Direct premiums received:		
Marine		4,500
Fire		3,500
Re-insurance premium received:		
Marine		1,200
Fire		800
Re-insurance premium paid:		
Marine	800	
Fire	500	
Sundry debtors	730	
Bank balance and cash in hand	110	
Unearned premium as at 1 April 2003:		4,800
Marine		2,500
Fire		
Claims outstanding as at 1 April 2003:		800
Marine		540
Fire		
Claims paid:		
Marine	2,470	
Fire	1,800	
Legal costs incurred on claims:		
Marine	180	
Fire	130	
Survey expenses relating to claims:		
Marine	320	

Bad debts:		
Marine	170	
Fire	120	
Investment in shares	1,400	
Freehold property	4,200	
Motor vehicles (net book value)	3,500	
Machinery and equipment (net book value)	1,500	
Furniture (net book value)	1,300	
Audit fees	240	
Directors' fees	495	
Depreciation of fixed assets	905	
	Sh.'000'	Sh.'000'
Management expenses:		
Marine	650	
Fire	580	330
Sundry creditors		280
Investment income		3,000
Ordinary share capital		1,000
Share premium		450
Profit and loss account balance as at 1 April 2003		
Premiums outstanding – 1 April 2003:		
Marine	800	
Fire	700	
	<u>23,700</u>	<u>23,700</u>

Additional information:

1. Premiums outstanding as at 31 March 2004 amounted to Sh.1,500,000 and Sh.700,000 for marine insurance and fire insurance respectively.
2. Claims intimated and outstanding as at 31 March 2004 amounted to Sh.750,000 for marine insurance and Sh.480,000 for fire insurance.
3. Unearned premium (reserve for unexpired risk) is maintained at 100% and 50% of the net premium for marine insurance and fire insurance respectively.
4. Commission on both the re-insurance ceded and re-insurance accepted is at the rate of 5% of the premium.
5. The directors have proposed a dividend of 10% on the outstanding share capital as at 31 March 2004
6. The tax rate applicable is 30%.

Required:

- (a) Revenue accounts for both marine and fire insurance for the year ended 31 March 2004. **(6 marks)**
- (b) Profit and loss account for the year ended 31 March 2004. **(4 marks)**
- (c) Financial position as at that date. **(5 marks)**

Question Four [15 marks]

- a) Briefly explain the following terms as used by accounting:
 - i. Commission on re-insurance accepted; **(2 marks)**
 - ii. Consideration for annuities granted; **(2 marks)**
 - iii. Del credere commission **(2 marks)**
 - iv. Floating recoupment **(2 marks)**
- b) A business entity may report profits in its financial statements and yet experience declining balances of the cash at hand and at bank. Explain how this is possible. **(4 marks)**
- c) In the context of IAS 41 (Agriculture), explain the meaning of the following terms:
 - (i) Biological transformation **(2 marks)**

• **Question Five [15 marks]**

- a) Explain some of the emerging issues in accounting and their role towards capping of interest rates on financial institutions in Kenya. (5 marks)
- b) ABC Ltd purchases gas cookers at Sh. 3,500 each and sells them through consigners at Sh. 5,000 each. Each consignee is entitled to a commission of 5% on sales from consigned goods and full recovery from sales made of any expenses incurred on the consigned goods.

The following transactions took place between ABC Ltd and Xyz Ltd, a consignee, during the three-month period ended 30 June 2006:

1. ABC Ltd sent 200 gas cookers to XYZ Ltd. and incurred the following costs:

Packing	-	Sh16,000
Insurance	-	Sh. 30,000
Transport	-	Sh. 42,000
2. On receipt of the cookers, XYZ Ltd. incurred Sh. 12,000 on unpacking and preparing the cookers for sale.
3. XYZ Ltd, sold 160 cookers and incurred carriage out costs of Sh. 18,000. Other incurred by XYZ Ltd. in the period included casual wages Sh. 15,000, advertising expenses Sh. 5,000 and storage cost Sh.12,000.
4. Some customers returned gas cookers to XYZ Ltd. after experiencing gas leakage. XYZ Ltd. spent Sh. 10,000 to repair the cookers.
5. In order to sell 40 cookers, they were all fitted with additional safety gadgets at a total cost of Sh. 12,000 which was paid by XYZ Ltd.
6. XYZ Ltd. sold 30 of the cookers fitted with the additional safety gadgets at Sh.6,000 each.
7. XYZ Ltd sent ABC Ltd. an account sales on 30 June 2006 enclosing a cheque for Sh.800,000.

Required:

- | | | |
|-------|-----------------------------------|-----------|
| (i) | Consignment accounts | (5 marks) |
| (ii) | Goods sent on consignment account | (2 marks) |
| (iii) | Consignees account | (3 marks) |