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...Bastion of Knowledge...

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ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2018 /2019 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR O BUSINESS MANAGEMENT

COURSE CODE: BBM 213
COURSE TITLE: FINANCIAL ACCOUNTING I

DATE:13/12/2018 **TIME: 9.00AM-12.00 PM**

INSTRUCTION TO CANDIDATES

- **SEE INSIDE**

THIS PAPER CONSISTS OF 10 PRINTED PAGES **PLEASE TURN OVER**

BBM 213:FINANCIAL ACCOUNTING I

STRERAM:BBM Duration: 3 hours

INSTRUCTIONS TO CANDIDATES

i. *Answer Question **ONE** and any other **TWO** questions*

ii. *Do not write on the question paper*

QUESTION ONE

A). The following information was extracted from the books of Moses Kiprono, a farmer, for the year ended 31 March 2017:

Trial Balance as at 31 March 2017

	Sh.	Sh.
Purchases:		
Poultry	420,000	
Dairy cattle	1,380,000	
Dairy cattle feed	580,000	
Poultry	150,000	
Fertilizers	220,000	
Seeds	100,000	
Sales:		
Crops		2,740,000
Dairy cattle		2,500,000
Eggs		720,000
Poultry		1,640,000
Milk		1,210,000
Opening stock:		
Mature crops	350,000	
Growing crops	120,000	
Seeds	80,000	
Poultry feed	50,000	
Fertilizers	110,000	
Poultry	230,000	
Dairy cattle feed	180,000	
Dairy cattle	520,000	
Wages:		
Poultry	600,000	
Dairy cattle	960,000	
Crops	720,000	
Repairs of farm machinery	250,000	
Farm house expenses	180,000	
Office expenses	825,000	
Crop expenses	280,000	
Dairy cattle expenses	240,000	

Poultry expenses	450,000	
Farm machinery (Net book value)	2,500,000	
Office furniture (Net book value)	1,500,000	
Drawings in cash	600,000	
Capital account		4,800,000
Debtors	675,000	
Creditors		780,000
Cash in hand and bank balances	350,000	
Accruals		230,000
	16,620,000	16,620,000

Additional information:

1. During the year ended 31 March 2017, the proprietor and the workers consumed items of the following values.

	Proprietor	**Workers**
	Sh.	**Sh.**
Poultry	50,000	120,000
Milk	80,000	170,000
Crops	20,000	60,000

2. Farm machinery is depreciated at the rate of 10% per annum on the reducing balance basis while furniture (which initially cost Sh.3,000,000) is depreciated at 10% per annum on cost.
3. On 31 March 2017, the closing stocks were as follows:

	Sh.
Dairy cattle	480,000
Dairy cattle feed	150,000
Mature crops	270,000
Seeds	40,000
Poultry	140,000
Poultry feed	70,000
Fertilizers	80,000
Growing crops	160,000

Required:

(a) Crop account, poultry account and dairy account for the year ended 31 March 2017. (8 marks)

(b) General profit and loss account for the year ended 31 March 2017. (2 marks)

(c) Balance sheet as at 31 March 2017. (5 marks)

B). The following balances were extracted from accounting records of Zintam Company Ltd. For the year ended 2015

	Shs. "Million"
7% preference share capital of shs. 10each	4,800
Ordinary share capital of shs 10 each	21,600
Share premium account	2,400
Buildings	24,000
Motor Vehicles	7,800
Accumulated Depreciation- Buildings	6,000

Motor Vehicles Equipment	600 1200
Equipment	3,600
Trade receivables	13,080
Trade Payables	6,000
Purchases	66,960
Sales	86,760
Returns outwards	240
Returns inwards	300
Directors remuneration	2,100
Salaries	5,220
Motor vehicles expenses	1500
Office expenses	1,680
Carriage outwards	240
Inventory	4,080
Investments	1,920
Cash in hand	1,320
Retained profits	3,240
Debenture Interest	144
Investment Income	180
Preference Dividend	168
Bad debts	660
Allowance for doubtful debts (1 July 2014)	840
Land at cost	12,168
General reserve	2,640

Required

Trial Balance as at 30th June 2015 (5 Marks)

C). Explain four qualities of accounting information should possess in order to be useful to the users (10 Marks)

QUESTION TWO

The following trial balance was extracted from the books of KaziNzuri Ltd as at 30th April, 2015

	Shs'000'	Shs '000'
Ordinary Share capital (15,750,000 ordinary shares of shs. 10 par value		157,500
Share premium		18,000
10% debentures		22,500
Building at cost	112,500	
Provision for depreciation on building (1 may 2014)		11,250
Retained earnings (1 may 2014)		81,450
Fixtures and fittings at cost	144,000	
Provision for depreciation on fixtures and fittings (1 may 2014)		57,600
Accounts receivable and accounts payable	74,250	33,300
Purchases and Sales	949,500	1,080,000

Discounts allowed and discounts received	1,126	2,926
Inventory (1 may 2014)	94,500	
Returns outward		18,000
Selling and distribution expenses	37,576	
Administrative expenses	12,600	
Bad debts	900	
Allowance for doubtful debts (1 may 2014)		4,050
Salaries and wages	29,250	
Cash at bank	29,374	
Cash in hand	1,000	
	1,486,576	**1,486,576**

Additional information

i. Inventory as at 30th April, 2015 was valued at shs 162,000,000

ii. Bad debts written off are to be increased by shs 2,000,000 due to bankruptcy of one of the customers

iii. Prepaid selling and distribution expenses as at 30th April 2015 was shs 300,000

iv. Accrued salaries and wages as at 30th April 2015 was shs 800,000

v. Depreciation is to be provided on cost as follows:

Non-current asset	Rate per annum
Building	2%
Fixtures and fittings	10%

vi. The company directors propose the following:
a). 10% dividend on the ordinary shares
b). Transfer of shs. 56,250,000 to general reserve

vii. The allowance for doubtful debts is to be adjusted to 2% of the trade receivables

vii. Interest on debentures had not been paid as at 30 April 2015

Required

a. Income statement for the year ended 30 April 2015 (10 marks)
b. Statement of financial position as at 30 April 2015 (10 marks)

QUESTION THREE

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015

	Zeta Limited		*Omega Limited*	
	£'000	£'000	£'000	£'000
Sales		4,000		6,000
Cost of sales				
Opening stock	200		800	
Purchases	3,200		4,800	
	3,400		5,600	
Less: closing stock	400		800	
		3,000		4,800
Gross profit		1,000		1,200
Expenses				
Distribution costs	200		150	
Administrative expenses	290		250	
Interest paid	10		400	
		500		800
Profit before tax		500		400
Taxation		120		90
Net profit for the period		380		310

Balance Sheets As At 31 March 2015

	Zeta Limited		*Omega Limited*	
	£'000	£'000	£'000	£'000
Fixed assets				
Tangible assets				
Warehouse and office buildings	1,200		5,000	
Equipment and vehicles	600		1,000	
		1,800		6,000
Current assets				
Stock	400		800	
Debtor – trade	800		900	
- sundry	150		80	
Cash at bank	-		100	
	1,350		1,180	
Current liabilities				
Creditors – trade	(800)		(800)	
- sundry	(80)		(100)	
Overdraft	(200)		-	
Taxation	(120)		(90)	
		150		890
		1,950		6,890
Long-term loan (interest 10% pa)		-		(4,000)
		1,950		2,890
		1,000		1,600
Share capital		-		500
Revaluation reserve		950		790
Profit and loss account		1,950		2,890

Required:

a) Calculate for each company a total of eight ratios which will assist in measuring the three aspects of profitability, liquidity and management of the elements of working capital. Show all workings.

(8 marks)

b) Based on the ratios you have calculated in (a), compare the two companies as regards their profitability, liquidity and working capital management.

(8 marks)

c) Omega Ltd is much more highly geared than Zera Ltd. What are the implications of this for the two companies?

(4 marks)

QUESTION FOUR

The following balances were extracted from the books of Fedha Commercial Bank Ltd. on 30 June 2001.

	Sh.'000'
Government securities	1,172,000
Loans and advances to customers	2,973,200
Cash and balances with Central bank	628,500
Other money market placements	17,300
Property, plant and equipment	504,000
Interest on loans and advances	435,400
Interest on Government securities	238,200
Foreign exchange income	72,000
Fees and commissions income	170,200
Deposits with other banks	115,000
Other fixed assets	32,000
Interest on placement and bank balances	36,000
Non-operating income	17,000
Customers deposits	4,240,000
Deposits and balances due to other banks	215,000
Depreciation expense	42,000
Directors emoluments	12,500
Bad and doubtful debts expense	34,000
Interim dividends paid	25,000
Staff costs	295,000
Interest on customers deposits	115,000
Interest on borrowed funds	35,000
Ordinary share capital	250,000
Auditors remuneration	3,500
Contribution to staff provident fund	14,500
Loss on sale of fixed assets	21,800
General administration expenses	142,500
Reserves	529,000
Legal and professional fees.	20,000

Additional information:

1. Current tax has been estimated at Sh.120,000,000
2. Final dividends have been proposed at 10%.
3. Accrued interest expense on customers' deposits at 30 June 2001 was Sh.30,000,000.
4. Unrecorded interest income on loans and advances to customers was Sh.150,000,000 at 30 June 2001.

Required:

(a) Profit and loss account for the year ended 30 June 2001. (14 marks)

(b) Balance sheet as at 30 June 2001. (6 marks)

NB: The financial statements are to be prepared in accordance with IAS 30.

QUESTION FIVE

Given below are the comparative balance sheets of Tausi Ltd., a trading company, for the years ended 31 October 2010 and 2011:

	2011		2010	
Assets	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**
Non current assets:				
Goodwill	23,500		32,650	
Premises	200,000		80,000	
Plant and machinery	290,100		278,200	
Office equipment	126,250	639,850	87,360	478,210
Current assets:				
Stock	88,890		67,815	
Debtors	57,890		52,015	
Bank	9,210	155,990	-	119,830
		795,840		598,040
Capital and Liabilities				
Capital:				
Ordinary shares	425,000		250,000	
10% redeemable preference	75,000		160,000	
shares	33,000		-	
Share capital	30,000		-	
Capital redemption reserve	38,000		12,000	
General reserve	22,300	623,300	11,200	433,200
Profit and loss account				
Non-current liability		63,000		50,000
Bank loan				
Current liabilities	49,820		40,290	
Creditors	30,500		28,500	
Current tax	26,000		18,000	
Proposed ordinary dividends	3,200		5,420	
Accruals	-	109,540	22,630	114,840
Bank overdraft		795,840		598,040

The following additional information is provided:

1. Some of the redeemable preference shares which had been issued at par, were redeemed at a premium of 2%. To finance the redemption and comply with the Companies Act requirements, the company simultaneously carried out the following:

   (i) Issued 5,500,000 additional ordinary shares of Sh.10 at a total premium of Sh.34,700,000.

   (ii) Transferred sufficient amounts to the capital redemption reserve.

   (iii) Financed the premium on redemption out of the premium received on issue of the additional ordinary shares.

2. Preference dividends are paid at the end of each financial year on shares outstanding then.
3. Part of plant and machinery which had cost Sh.60,000,000 on acquisition and on which Sh.42,000,000 accumulated depreciation had been provided was sold for Sh.25,000,000 during the year.
4. Included in the depreciation charge for the year is Sh.15,100,000 in respect of plant and machinery.
5. New office equipment was purchased in the year for Sh.55,000,000. There was no disposal of office equipment during the year.
6. It is the company's policy not to depreciate premises. The change in the premises account balance was due to a revaluation of the asset.
7. The revaluation reserve arising in (6) above was all to finance the issue of fully paid-up bonus shares of Sh.10 each to ordinary shareholders.
8. A new bank loan of Sh.25,000,000 was received in the year. Bank interest of Sh.8,000,000 was also paid in the year.
9. Current tax liability is in respect of the tax charge for the respective year.
10. During the year ended 31 October 2001 an interim dividend of Sh.14,000,000 was paid.

Required:
Cash flow statement in accordance with IAS 7.

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