



ALUPE UNIVERSITY
COLLEGE

Bastion of Knowledge...

P. O.Box 845-50400 Busia(K)
principal@auc.ac.ke
Tel: +254 741 217 185
+254 736 044 469
off Busia-Malaba road

OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2019 /2020 ACADEMIC YEAR

2nd YEAR 1st SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT**

COURSE CODE: BBM 213

COURSE TITLE: FINANCIAL ACCOUNTING 1

DATE: 10/12/2019

TIME: 2.00-5.00PM

INSTRUCTION TO CANDIDATES

- **SEE INSIDE**

THIS PAPER CONSISTS OF 6 PRINTED PAGES

PLEASE TURN OVER

INSTRUCTIONS ANSWER QUESTION ONE AND ANY OTHER TWO QUESTION

QUESTION ONE (30 MARKS)

- a) Give any four objectives of farm accounting. (4 marks)
- b) IAS 41 establishes the standard of accounting for agricultural activities. Explain any five features of farm transactions.(5 marks)
- c) Given below is the trial balance of ADK Farm Ltd as at 31 December 2018:

	Sh.'000'	Sh.'000'
Ordinary share capital		5,000
Share premium		400
Land and buildings	4,500	
Farm machinery	2,200	
Sundry debtors	580	
Cash in hand	320	
Loan (crop)		800
Retained profits		500
Bank overdraft		120
Accumulated depreciation – Farm machinery		440
Sundry creditors		300
Stocks on 1 January 2018:		
Growing crops, wheat, seeds and fertilizers	180	
Livestock	280	
Farm labour	105	
Salaries and wages:		
Manager	120	
Farm labour	110	
Office expenses	280	
Crop expenses	210	
Livestock expenses	250	
Livestock purchases	670	
Purchase of feeding materials	120	
Farmhouse expenses	25	
Staff meals	10	
Repairs to machinery	30	
Interest on loan	40	
Tools and implements	120	
Sales of wheat		1,050
Sales of livestock		1,500
Manager's account		40
	<u>10,150</u>	<u>10,150</u>

The following additional information is provided:

1. On 31 December 2018, the value of stocks were as given below:
Sh.'000'

Livestock	240
Feeding materials	130
Growing crops, wheat, seeds and fertilisers	20
Tools and implements	100

2. Depreciation on tools and implements is apportioned equally between livestock and crop activities.
3. Farm machinery is depreciated at the rate of 5% per annum on cost.
4. Manager's salary and staff meals should be divided between livestock and crop activities in the ratio 3:2 respectively.

Required:

- (i) Livestock account for the year ended 31 December 2018. (7marks)
- (ii) Crop account for the year ended 31 December 2018. (7 marks)
- (iii) Balance sheet as at 31 December 2018. (7 marks)

QUESTION TWO (20 MARKS)

- a) Explain the following terms as used in insurance(4 marks)
 - i. Endowment policy
 - ii. Commission on reinsurance ceded
 - iii. Commission on reinsurance accepted
 - iv. Surrender value
- b) The following trial balance was extracted from the books of Good luck life assurance Company as on 31st March 2017.

	Sh.000	Sh. 000
Paid up capital 200,000 shares @ sh. 10		2,000
Life assurance fund as on 1 st April 2016		59,446
Bonus to policy holders	630	
Premium received		3,230
Claims paid	3,940	
Commission paid	186	
Management expenses	646	
Mortgages	9,844	
Interest Dividends and rent		2,254
Agents balances	186	
Investment properties- real estate	800	
Investments	46,100	
Loan on companies policies	3,472	
Cash on deposits	540	
Cash in hand and on current account	446	
Surrenders	<u>140</u>	
	<u>66,930</u>	<u>66,930</u>

Additional information as at 31st march 2017

	Sh.000
Claims admitted but not paid	186
Management expenses due	4
Interest accrued	386
Premiums outstanding	240
Required	

- i. Revenue account as on 31st March 2017 (8marks).
- ii. Statement of financial position as on 31st March 2017(8marks).

QUESTION THREE (20 MARKS)

- a. Explain the following terms as used in special accounts (1 mark each)
 - i) Short workings
 - ii) Minimum rent
 - iii) Recoupment of short workings
 - iv) Royalty
- b. P.Quick obtains a lease from R Rich to work a mine, the terms being sh. 10 per tone merging into a minimum rent of sh.20,000 per annum, there being granted to the lessee the right to recoup shortworkings during the first four years of the lease. P.Quick sublets part of the property to V.Poor the terms being a royalty of sh. 12.50 per tone merging in a minimum rent of sh.9,600 per annum. V. Poor has the right to recoup in the two years following the short workings. The amount of ore in tones extracted was as follows.

Year	P Quick	V.Poor	Total
1	1,100	400	1,500
2	1,160	540	1,700
3	1,300	700	2,000
4	1,400	900	2,300

Draw the following accounts in the books of P Quick.

- i. Royalty payable account (4 marks)
- ii. Rich account (4 marks)
- iii. Shortworkings account (4 marks)
- iv. V. Poor account (4 marks)

QUESTION FOUR (20 MARKS)

Beta Ltd is reviewing the financial statements of two companies, Zeta Ltd and Omega Ltd. The companies trade as wholesalers, selling electrical goods to retailers on credit. Their most recent financial statements appear below.

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

Zeta Limited

Omega Limited

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

Balance Sheets As At 31 March 2018

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

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 FIVE(20 MARKS)

- a) Explain the following terms as used in bank accounts (4 marks)
 - I. Standard asset
 - II. Doubtful assets
- b) Hamara bank has the following information in the books of accounts for the year ending 31st march 2018

	Sh.000,000
Interest and discount	4,430
Other income	125
Interest account on investment	10
Interest expended	1,360
Operating expense	1,331
Rebate on bills discounted 31/3/2018	15
Rebate on bills discounted 1/4/2017	30
Classification of advance	
Standard asset	2,500
Sub-standard asset	560
Doubtful asset not covered by security	225
Doubtful covered by security	
For 1 year	25
For 2 year	50
For 3 year	100
For 4 year	75
Loss asset	100

Make tax provision @ 30% of the profit. profit and loss account brought forward from the previous year sh 40,000,000 cr.

Required:

- i. Amount of provision that will appear at the income statement as at 31st march 2018 (8mrks)
- ii. The income statement of Hamara bank limited as at 31st march 2018 (8mrks)