



**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

2020 /2021 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: 11/03/2021

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 QUESTIONS

QUESTION ONE COMPULSORY (30 MARKS)

- a) Explain any five peculiar features of farm accounting. (5marks).
b) State five purposes of ratio analysis (5 marks)
c) The following trial balance is for Mlala Hoi farm in Bungoma as at 31st December 2018. Use it to answer the questions that follow.

Dr	Sh.	Cr.	Sh.
Land and building	400,000	Capital	E of 500,000
Farm machinery	220,000	Profit and loss	60,000
Sundry debtors	80,000	Loan	100,000
Cash in hand	28,000	Provision for depreciation	80,000
Stock on 1/1/18		Sale of livestock	150,000
Fertilizer	40,000	Sale of corn and straw	70,000
Livestock	60,000	Sundry creditors	10,000
Feeding materials	2,000	Managers personal A/c	1,000
Salaries and wages		Bank overdraft	9,000
Managers salary	12,000		
Farm labour	10,000		
Office expenses	2,000		
Farm house expenses	2,000		
Staff meals	1,000		
Crop expenses	20,000		
Livestock purchases	25,000		
Livestock maintenance (medicines)	55,000		
Repairs to machinery	4,000		
Sundry expenses (livestock)	1,600		
Repairs and maintenance (crop)	1,000		
Sheds (livestock)	1,000		
Tools and implements	3,000		
Interest on loan (crop)	6,000		
	980,000		980,000

Additional information

- The manager of the farm resides in the farm as a residence but chargeable only a third of farm house expenses.
- Depreciation to be provided for machinery amounted to sh. 1,000 chargeable to crop account only.
- Farms own growing corn amounting to sh.4, 000 was used by livestock feeding during the year.
- Office expenses and directors fees are purely administrative.
- The livestock account is chargeable with 10% of the salaries and staff meals.
- Stocks on 31.12.2018; fertilisers sh.20, 000. Livestock sh. 80,000. Feeding material sh. 4,000. tools and implements sh.1,000
- Depreciation of tools and implements is to be apportioned between crop and livestock accounts in ratio of 3:1

Required

- i. Crop account as at 31st December 2018 7 mks
- ii. Livestock account as at 31st December 2018. 7 mks
- iii. Income statement as at 31st at December 2018. 6 mks

QUESTION TWO. (20 MARKS)

Briefly explain the following terms as used in the accounts of professional practitioners:

- (i) Office account (2 marks)
 - (ii) Client account (2 marks)
 - (iii) Costs charged to clients (2 marks)
 - (iv) Work-in-progress. (2 marks)
- (b) Given below is a trial balance extracted from the books of Onsando, a firm of practicing advocates as at 31 October 2020:

Onsando Advocates Trial Balance

	Sh.	Sh.
Capital account		204,000
Disbursements on behalf of clients	12,000	
Drawings	60,000	
Salaries	72,000	
Rent and rates	60,000	
Printing and stationery	35,000	
Postage and telephone	18,200	
Costs charged to clients		250,000
Work in progress on 1 November 2019	36,800	
Clients: for the moneys held on their behalf		24,800
Creditors		27,200
Debtors	78,000	
Sundry office expenses	8,500	
Furniture, fittings and library books	45,000	
Cash at bank:		
Clients' account	24,800	
Office account	55,700	
	<u>506,000</u>	<u>506,000</u>

Additional information:

1. The uncompleted work on 31 October 2020 was valued at Sh.23,500.
2. It is estimated that debts amounting to Sh.5,500 are uncollectible and should be written off.
3. Depreciation should be provided at 20% per annum on the book value of the furniture, fittings and library books.

Required:

- (a) Income statement for the year ended 31 October 2020. (6 marks)
- (b) Statement of financial position as at 31 October 2020. (6 marks)

QUESTION THREE. (20 MARKS)

DDT Bank Ltd., a registered commercial bank, prepares its accounts to 30 June each year. The trial balance of the bank as at 30 June 2020 was as follows:

	Sh.'000'	Sh.'000'
Treasury bills	2,344,000	
Loans to customers	5,946,400	
Other money market placements	34,600	
Property, plant and equipment	1,008,000	
Cash and balances with the Central Bank	1,257,000	
Interest on loans		870,800
Interest on treasury bills and bonds		476,400
Foreign exchange income		144,000
Fees and commissions income		340,400
Deposits with other banks	230,000	
Other fixed assets	64,000	
Interest on placements and bank balances		72,000
Non-operating income		34,000
Customers' deposits		8,480,000
Deposits and balances due to other banks		430,000
Depreciation charges	84,000	
Directors emoluments	25,000	
Bad and doubtful debts	68,000	
Interim dividends paid	50,000	
Salaries and wages	590,000	
Interest on borrowed funds	70,000	
Interest on customers deposits	230,000	
Ordinary share capital		500,000
Auditors fees	7,000	
Contribution to staff pension scheme	29,000	
Administrative expenses	285,000	
Loss on sale of fixed assets	43,600	
Reserves		1,058,000
Legal fees	40,000	
	<u>12,405,600</u>	<u>12,405,600</u>

Additional information:

1. Current tax has been estimated at Sh.200, 000,000
2. A final dividend of 15% has been proposed.
3. Unrecorded accrued interest expense on customers' deposits at 30 June 2020 was sh.70, 000,000.
4. Interest income on loans and advances to customers of Sh.150, 000,000 at 30 June 2020 was omitted from the books.

Required:

- (a) Income statement for the year ended 30 June 2020.
(b) Statement of financial position as at 30 June 2020.

(12 Marks)

(4Marks)

(These statements should be presented in accordance with IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions).

QUESTION FOUR (20 MARKS)

- a) Explain the meaning of the following terms as used in insurance business (2 marks)
- i. Bonus in reduction of premium.
 - ii. Surrender value
- b) Bima Insurance Ltd specializes in general insurance business. The following trial balance was extracted from the books of the company as at 31 October 2020.
- c)

Direct premiums received	Marine		45,000
	Fire		35,000
Re-insurance premiums received	Marine		12,000
	Fire		8,000
Re-insurance premiums paid	Marine	8,000	
	Fire	5,000	
Sundry debtors		7,300	
Bank balance and cash in hand		1,100	
Unearned premium as at 1 November 2020	Marine		48,000
	Fire		25,000
Claims outstanding as at 1 November 2020	Marine		8,000
	Fire		5,400
Claims paid	Marine	24,700	
	Fire	18,000	
Legal costs incurred on claims	Marine	1,800	
	Fire	1,300	
Survey expenses relating to claims	Marine	3,200	
Bad debts	Marine	1,700	
	Fire	1,200	
Investment in shares		14,000	
Freehold property		42,000	
Motor vehicles net book value		35,000	
Machinery and equipment net book value		15,000	
Furniture net book value		13,000	
Audit fees		2,400	
Directors' fees		4,950	
Depreciation of fixed assets		9,050	
Management expenses	Marine	6,500	
	Fire	5,800	
Ordinary shares capital			30,000
Shares premium			10,000
Profit and loss account balance as at 1 November 2019			4,500
Premium outstanding as at 1 November	Marine		9,000
	Fire		7,000
		237,000	237,000

Additional information:

- i. Premium outstanding as at 31 October 2020 amounted to Sh. 15,000,000 and Sh 7,000,000 for marine insurance and fire insurance respectively.
- ii. Claims intimated and outstanding as at 31 October 2020 amounted to Sh 7,500,000 for marine and Sh 4,800,000 for fire insurance.
- iii. Unearned premium reserve for unexpired risks is maintained at 100% and 50% of the net premium for marine insurance and fire insurance respectively.
- iv. Commission on both the re-insurance ended and re-insurance accepted is at the rate of 5% of the premium.
- v. The directors have proposed a dividend of 10% on the outstanding share capital as at 1 October 2020. The tax rate applicable is 30%

Required:

- a) Revenue accounts for both marine and fire insurance for the year ended 31 October 2020.(6 marks)
- b) Profit and loss account for the year ended 31 October 2020 (6 marks)
- c) Balance sheet as at 31 October 2020(6 marks)

QUESTION 5 (20 MARKS)

- a) Give five differences between hire purchase and installment payment systems. (5 marks)
- b) Transport corporation purchased a truck on HP system from kk motors for sh. 56 million payments to be made sh. 15million down cash and three installments of sh. 15 million each at the end of each year. Rate of interest is charged at 5%. Buyer depreciates assets at transport 10% pa on written down value method. Due to financial difficulties could not pay the second installments and kk motors took possession of the truck and after spending sh.350,000 on repairs of the truck sold it for 30.11 million.

Required

- i. Prepare truck account and sellers account in the books of the buyer transport corporation for the two years. (8mks)
- ii. The purchaser account and goods on hire purchase returned account in the books of kk motors for the two years.(7mks)