



## **GARISSA UNIVERSITY COLLEGE**

*(A Constituent College of Moi University)*

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR TWO  
SECOND SEMESTER EXAMINATION**

**SUPPLEMENTARY/SPECIAL EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 229**

**COURSE TITLE: FINANCIAL ACCOUNTING I**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 27/09/17**

**TIME: 2.00-5.00 PM**

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### **INSTRUCTION TO CANDIDATES**

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

**This paper consists of EIGHT (8) printed pages**

*please turn over*



## QUESTION ONE (COMPULSORY)

(a) Briefly explain the following terms as used when computing consequential loss claim:

- i. Turnover of preceding financial year **[2 marks]**
- ii. Annual turnover **[1 marks]**
- iii. Standard turnover **[2 marks]**

(b) Wananchi Pools Ltd. set up a business on 1 July 2015 to sell snooker tables of a standard size and quality. The company began with Sh.600,000 in the bank. The tables are purchased for Sh.5,400 each and sold for Sh.7,500 each. A friend of the managing director introduced ART Ltd. a hire purchase company to Wananchi Pools Ltd. ART requires a deposit of Sh.2,100 followed by 18 months instalments of Sh.375 each, the first one payable one month after purchase. Wananchi Pools Ltd. decided to deal in hire-purchase business on terms and conditions to those ART on deposits and instalments.

During the year ended 30 June 2016, Wananchi Pools Ltd. bought a total of 300 tables and sold 210 of them. Hire purchase sales were 12 in April 2016, 20 in May 2016 and 30 in June 2016, but 2 of those sold in April were repossessed in June with the deposit and one instalment having been paid. One of the repossessed tables was damaged and had to be repaired for Sh.1,800 while the other one was hardly damaged and could be treated as new stock..

At the year ended 30 June 2016, the following trial balance was extracted:

	Sh.	Sh.
Capital		600,000
Purchases	1,620,000	
Sales		2,133,000
Debtors	470,250	
Creditors		43,200
Expenses	135,000	
Drawings	480,000	
Bank balances	<u>70,950</u>	<u>          </u>



2,776,200

2,776,200

**Required:**

- (a) (Statement of Comprehensive Income for the year ended 30 June 2016. **[8 marks]**
- (b) ((i) Hire purchase debtors account **[3 marks]**
- (ii) Repossessions account. **[2 marks]**
- (c) Statement of financial position as at 30 June 2016 **[7 marks]**

**QUESTION TWO**

Mama Safi Ltd. insured under a loss of profits policy Sh.16, 000,000. The company's premises were partly destroyed by fire which took place on 1 May 2016 and the business resumed normal operations on 1 September 2016.

Given below is the information extracted from the books of the company relating to the policy:

1. Period of indemnity is six months.
2. Net profit for preceeding financial year – Sh.4,800,000.
3. Insured standing charges – Sh.9,600,000.
4. Uninsured standing charges – Sh.1,600,000
5. Increased cost of working – Sh.3,000,000.
6. Savings in insured standing charges – Sh.600,000.
7. Reduction in turnover avoided through increase in cost of working – Sh.8,000,000
8. Financial year ends on 31 December.
9. The following are turnovers for four months ended 30 April, 31 August and 31 December respectively.



Year	Sh.	Sh.	Sh.
2015	12,000,000	40,000,000	28,000,000
2016	20,000,000	16,000,000	34,000,000

10. Owing to reasons acceptable to insurers, the special circumstances clause recommended the following:

- i) Increase of annual and standard turnover by 10%
- ii) Increase of rate of gross profit of 2%

**Required:**

A statement showing the calculation of the amount of the consequential loss claim

**[15 marks]**

**QUESTION THREE**

Smart Ltd which deals in Mobile phones has head office in Garissa and a branch in Wajir. All purchases are made by the head office and goods are charged to branches at cost plus 20%. The following information relates to the branch for the year ended 31<sup>st</sup> Dec. 2016.

Opening balances	1 <sup>st</sup> Jan 2016:	Branch stock (selling price)	300,000
		Branch debtors	450,000
Closing balances	31 <sup>st</sup> Dec 2016:	Branch stock (selling price)	250,000
Transactions for the year			
Goods sent to branch (selling price)			2,500,000
Goods returned by branch to head office (selling price)			200,000
Cash sales			800,000
Credits sales			2,700,000
Returns from customers			100,000
Discounts allowed			30,000
Bad debts written off			20,000



Goods stolen at branch	30,000
Cash stolen at branch	45,000
Cash received from debtors	2,450,000

**Required:**

- i.Branch stock account **[5 marks]**
- ii.Branch adjustment account **[5 marks]**
- iii.Goods sent to branch account **[2 marks]**
- iv.Branch debtors account **[3 marks]**

**QUESTION FOUR**

Ali and Omar were in partnership sharing profit and loss in the ratio of 3:2 respectively .Their statement of financial position as at 31<sup>st</sup> December 2015 was as follows

**Ali and Omar Trader**

**Statement of Financial position as at 31 December 2015**

<b>Assets</b>		
Non-Current Assets		Shs''000''
Plants and Machinery		2,800
Fixtures and fittings		400
Investment		1,000
		<b>4,200</b>
<b>Current Assets</b>		



Inventory		600
Trade receivable	2000	
Less Provision for bad debts	100	1,900
Bank		1,150
		<b>3,650</b>
<b>Total Assets</b>		<b>7850</b>
Capital & Reserves		1000
Capital:Ali		800
Omar		500
Accumulated profits(loss)		(750)
<b>Owner's equity</b>		<b>1550</b>
Liabilities		
Non-Current Liabilities		
Loan from Ali		1,500
Loan from Equity		1,000
<b>Current Liabilities</b>		
Creditors		3800
<b>Total Capital &amp; Liabilities</b>		<b>7850</b>



### **Additional information**

On 1<sup>st</sup> January 2016 the partners decided to dissolve the partnership after serious disagreement and the following information was provided.

- a) Ali took over the investment at sh 800,000 and also agreed to pay the loan from Equity
- b) The assets realized the following amounts
  - stocks sh 500,000
  - Trade receivables sh 1,850,000
  - Fixtures & Fitting sh 450,000
  - Plant & Machinery sh 2,500,000
- c) Dissolution expenses amounted to sh 110,000
- d) Creditors were paid an amount less 2.5% discount
- e) The loan from Ali was paid in full

### **Required:**

- a) Realization account **[7 Marks]**
- b) Capital account **[6 Marks]**
- c) Bank account **[2 Marks]**

### **QUESTION FIVE**

- (a) Outline any three essentials of a valid bill of exchange **[3 marks]**
- (b) ) Zawadi Ltd sold goods valued at shs. 500,000 to Daima Traders on 1<sup>st</sup> May 2016 and drew upon them a three months bill of exchange for that amount. Daima Traders accepted the bill. On July 31<sup>st</sup> 2016 Daima Traders expressed their inability to meet the bill and offered to pay Zawadi Ltd shs.100,000 in cash and to accept a new bill for the balance plus interest at 10% p.a for three months. Zawadi Ltd agreed to the proposal and the bill was renewed. This amount was paid by Daima Ltd on 31<sup>st</sup> October 2016.

Required: Show the relevant entries in the books of Zawadi Ltd in the following accounts

- i. Daima Traders account **[4 marks]**
- ii. Bills receivable account **[4 marks]**
- iii. Cash account **[2 marks]**
- iv) Interest receivable account **[2 marks]**



## QUESTION SIX

- (a) Briefly explain the meaning of the following terms in relation to bills of exchange:
- i. Accommodation bill **[3 marks]**
  - ii. Noting charges **[2 marks]**
- (b) Distinguish between hire purchase and lease. **[4 marks]**
- (c) State the nature and purpose of the following in an insurance contract covering consequential loss:
- i. Special circumstances clause **[3 marks]**
  - ii. Average provision clause **[3 marks]**

