****

**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR TWO**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 229**

**COURSE TITLE: FINANCIAL ACCOUNTING 2**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 05/04/2021 TIME: 12.00-2.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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 SEVEN (7) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. In the context of non-autonomous branches, describe the accounting treatment in the books of the head office of the following items.
2. Goods stolen in transit. ( 4 Marks)
3. Mark-ups and mark-downs in prices. ( 4 Marks)
4. Briefly explain the rule in Garner Vs Murray ( 2 Marks)
5. Able, Patient and Hastine were in partnership sharing profits and losses in the ratio of 5:3:2 respectively. Due to irreconcilable differences they agreed to dissolve the partnership. Any realization of assets was distributed to the partners on realization after all expenses and liabilities were paid.

The following is the statement of financial position as at 31 August 2012 when the resolution to dissolve the partnership was effected.

|  |  |  |
| --- | --- | --- |
|  | **Sh. “000”** | **Sh. “000”** |
| **Non-current assets:**  Premises  Equipment  Furniture and fittings  **Current assets:**  Inventories  Accounts receivable  Balance at bank  Total assets  Capital accounts: Able  Patient  Hastine  Current accounts: Able  Patient  Hastine  **Non-current liabilities**  Mortgage on premises  Loan from Patient  **Current liabilities**  Accounts payable  Total capital and liabilities | 15,540  27,400  4,000  28,500  19,500  3,750  9,500  6,500  (750)  12,000  1,500 | 21,500  14,560  3,000  39,060  46,940  86,000  51,750  15,250  13,500  5,500  86,000 |

The partners were unable to sell the business as a going concern. A liquidator was therefore appointed who realized the assets as follows:

|  |  |  |
| --- | --- | --- |
| **Date** | **Asset** | **Amount realized**  **Shs ‘000’** |
| l 1 September 2012  30 September 20 12  15 October 2012  10 November 2012 | Premises after meeting the mortgage in full  Accounts receivable  Inventories  Equipment  Accounts receivable  Furniture and fittings  Inventories  Accounts receivable | 5,000  8,500  1,500  7,800  7,200  1,500  8,200  2,300 |

The remaining inventories were taken over by Able at an agreed value of Sh. 1,200,000. The accounts payable were settled net of a discount of Sh.350, 000 while the liquidation expenses amounted to Sh.2, 500,000.

Hastine was insolvent. An amount of Sh. 1,350,000 was recovered from his estate in full settlement of the amounts due from him on 10 November 2012.

**Required;-**

1. Statement of cash distribution to the partners. ( 5 Marks)
2. Realization account, ( 5 Marks)
3. Bank account. ( 5 Marks)
4. Partners' capital accounts. ( 5 Marks)

**QUESTION TWO**

1. Explain three reasons why a public limited company publishes it is annual report and accounts. (6 Marks)
2. The trial balance was extracted from the books of Polytex Ltd. as at 31 October 2012.

|  |  |  |
| --- | --- | --- |
|  | **Sh. “000”** | **Sh. “000”** |
| Land and buildings at a cost | 810,00 | - |
| Plant a cost | 468,000 | - |
| Purchases | 234,000 | - |
| Distribution expenses | 30,000 | - |
| Administration expenses | 16,500 | - |
| Loan interest piad | 6,000 | - |
| Leased plant rental | 66,000 | - |
| Inventories(1 November 2011) | 113,400 | - |
| Accounts receivable | 159,600 | - |
| Investments ( Long term) | 270,000 | - |
| Revenue | - | 835,200 |
| Ordinary shares( sh.each) | - | 450,000 |
| Income from investment | - | 13,500 |
| Retained earnings | - | 358,000 |
| 8% debentures | - | 150,000 |
| Accumulated depreciation :  Buildings  Plant | -  - | 180,000  78,000 |
| Dividends paid | 45,000 | - |
| Accounts payable | - | 100,200 |
| Deferred tax | - | 37,200 |
| Bank balance | - | 16,200 |
|  | 2,219,100 | 2,219,100 |

**Additional information:**

1. Inventories were valued at sh. 129.6 million as at 31 October 2012.
2. The 8% debentures were issued on 1 January 2012 and interest is payable six months in arrears.
3. The income tax for the year ended 31 October 2012 was estimated at sh. 84.9 million. The deferred tax provision as at 31 October 2012 was increased to sh. 42.3 million.
4. The land and Buildings were purchased on 1 November 1996. The cost of Land was sh. 210 million. No land or buildings have been purchased by Polytex Ltd. since then. However, 1 November 2011, the land and buildings were professionally valued at sh. 240 million and shs. 525 million respectively. The estimated useful life of buildings before revaluation was 50 years. However, the revaluation did not affect the useful life of the buildings.
5. Plant is depreciated at 15% per annum using the reducing balance method. Depreciation expense is to be included under cost of sales in the income statement.
6. On 1 November 2011, Polytex Ltd. entered into a five-year lease agreement for an item of plant. This item had an estimated useful life of five years. The annual rental which was payable in advance with effect from I November 2011 was sh. 66 million. The fair value of the plant is sh. 276 million and the implicit interest rate is 10% per annum.

**Required:**

* 1. Income statement for the year ended 31 October 2012. ( 7 Marks)
  2. Statement of financial position as at 31 October 2012. ( 7 Marks)

**QUESTION THREE**

1. Briefly explain four purposes of the branch accounts to an organization which sells goods through various outlets. ( 8 Marks)
2. Traders Limited operates two branches one in the head office in Nairobi and the other in Busia. Purchases of stock are made exclusively by the head office branch which does some modification to the stocks before they are sold. Goods are sent to the Busia branch at modified cost plus 10% and all sales by both Busia branch and head office branch are made at a gross profit of 25% on the modified goods.

The trial balances as at 30 June 2002 before taking account of the under mentioned adjustments were:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Nairobi Branch** | | **Busia branch** | |
|  | **Sh. ‘000’** | **Sh. ‘000’** | **Sh. ‘000’** | **Sh. ‘000’** | |
| Capital  Purchases  Cost of modification  Drawings by the owner  Sales  Goods sent/received by branch  Selling and general expenses  Debtors/Creditors  Branch and head office current accounts  Bank balances | 9,847.5  252  275  945  1,548  1,949  760  15,577 | 1,550  6,400  4,620  3,007  \_\_\_\_\_\_  15,577 | 4,400  106  568  387.5  5,461.5 | 4,100  54  1,307.5  \_\_\_\_\_\_  5,461.5 | |

**Additional information:**

1. Goods worth Sh.220, 000 sent to Busia branch in June 2002 were not received ir recorded by the branch until July 2002 while a remittance of Sh.421, 500 from the Busia branch to the head office in June 2002 was not received or recorded at head office until August 2002. Any adjustmenta in respect of these items are to be made in the head office accounts
2. There was a shortage in stocks of selling value of Sh.100, 000 at the Busia Branch. There was no shortage of surplus at the head office.
3. Unmodified goods costing Sh.500, 000 were at the Nairobi branch as at 30 June 2002.
4. There was no loss or wastage in the process of modification of stocks by the head office. The branch handles only goods received from the head office.

**Required:**

Prepare in columnar form for the Nairobi branch, Busia branch and the combined business.

1. The trading and profit and loss account for the year ended 30 June 2002 ( 6 Marks)
2. The balance sheets as at 30 June 2002. ( 6 Marks)

**QUESTION FOUR**

1. In accordance with International Accounting Standard (IAS) 8. Accounting Policies. Changes in Accounting Estimates and Errors, explain the circumstances in which an entity is permitted to change its accounting policies. ( 6 Marks)
2. In preparation of published accounts IAS 1 requires to observe certain rules, briefly explain such four rules. ( 4 Marks)
3. BMG Service limited purchased from Faiba investment limited,. A motor van on 1st April 2020, the case price being sh. 164,000. The purchase was on hire purchase basis, sh. 50,000 being paid on the signing of the contract and thereafter sh. 50,000 being paid annually on 31st March, for three years, interest was charged at 15% per annum.

**Required:**

Prepare the following leder accounts in the books of BMG limited

1. Motor van account ( 5 Marks)
2. Faiba investment Limited account ( 5 Marks)

**QUESTION FIVE**

1. The directors of Husni Ltd. are reviewing the draft financial statements of the company for the year ended 30 June 2020. Various matters relating to the financial statements require to be concluded before the financial statements are approved by the directors.

**Required**:

Explain how the following matters relating to the financial statements of Husnia Ltd. should be dealt with, stating in each case the relevant accounting standard: ( 3 Marks)

1. After the balance sheet date, one of the factories was seriously damaged by fire. The insurance company has agreed to cover only part of the loss. The company's going concern is not affected.
2. Husni Ltd. guaranteed another company in 2018. No disclosure has been made in previous financial statements, but events in the latter part of 2020 suggest that the liability will fall on Husni Ltd. in the year ending 30 June 2021. ( 3 Marks)
3. A and B Advocates and M and N Advocates were practicing firms of advocates. On 1 January 2006, they agreed to amalgamate the partnerships into one fir. Able and Mine Advocates. The accounts of the separate partnerships have been prepared annually to 31 December.

The agree profit and loss sharing ratios in the old and new firms were as follows:

**A B M N**

Old firms 3 2 2 1  
New firm 4 3 2 1

The balance sheets extracts of the partnerships as at 31 December 2005 were as follows

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A and B Advocates** | | | | **M and N Advocates** | | | | |
|  | **Sh. ‘000’** | |  | | **Sh.‘000’** | | | |  | |
| **Non-current assets:** | |  | |  | |  |  |
| Motor vehicles | | 10,000 | |  | | 9,000 |  |
| Office equipment | | 4,000 | |  | | 3,000 |  |
|  | | 14,000 | |  | | 12,000 |  |
| Goodwill | | 6,000 | |  | | 5,000 |  |
| **Current assets:** | |  | |  | |  |  |
| Investments | | 7,500 | |  | | - |  |
| Accounts receivable | | 20,000 | |  | | 13,000 |  |
| Cash | | 2,500 | |  | | - |  |
|  | | 30,000 | |  | | 13,000 |  |
| Total assets | | 50,000 | |  | | 30,000 |  |
| Capital and Liabilities: | |  | |  | |  |  |
| Capital accounts: | |  | |  | |  |  |
| A | | 25,000 | |  | | - |  |
| B | | 15,000 | |  | | - |  |
| M | | - | |  | | 15,000 |  |
| N | | - | |  | | 10,000 |  |
|  | | 40,000, | |  | | 25,000 |  |
| **Current liabilities:** | |  | |  | |  |  |
| Client account | | 5,000 | |  | | - |  |
| Accounts payable | | 5,000 | |  | | 3,500 |  |
| Bank overdraft | | - | |  | | 1,500 |  |
|  | | 10,000 | |  | | 5,000 |  |
| Total capital and liabilities | | 50,000 | |  | | 30,000 |  |

**Additional Information:**

1. Provision for bad and doubtful debts to be made at 5% of the accounts receivable.
2. Able and Mine Advocates was to take over the assets of the old partnerships at the following agreed values:

**A and B Advocates M and N Advocates**  
Sh.’000’ Sh.’000’

1. Motor vehicles 9,000 8,000  
   Office equipment 3,500 3,000  
   Goodwill 7,500 5,000
2. The investments of A and B Advocates were sold on1 January 2006 for sh.8,000,000.
3. The capital for Able and Mine Advocates amounted to sh.75,000,000 which was contributed by the partners in their profit sharing ratios, any adjustments being made in cash.
4. The client account and the accounts payable were settled immediately on amalgamation.

**Required:**

Prepare the following accounts to record the above transactions:

1. Realizing accounts. ( 4 Marks)
2. Capital accounts. ( 4 Marks)
3. Cash accounts. ( 3 Marks)
4. Able and Mine Advocates account ( 3 Marks)