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... Bastion of Knowledge...

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ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2019 /2020 ACADEMIC YEAR

2ND YEAR 2nd SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 223

COURSE TITLE: FINANCIAL ACCOUNTING

DATE: 30/10/2020

TIME: 3 HOURS

INSTRUCTION TO CANDIDATES

- SEE INSIDE

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ANSWER QUESTION ONE COMPULSORY AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS) COMPULSORY

- a) Explain any two methods of charging goods to branches by head office (4 marks)
- b) ABC has a branch in Bungoma to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit, Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account. Relating to calendar year 2018, Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Sh.
Goods received from Head Office at invoice price	600,000
Returns to Head Office at invoice price	12,000
Stock at Bungoma as on 1st Jan., 2018	60,000
Sales in the year - Cash	200,000
Credit	360,000
Sundry Debtors at Bungoma as on 1st Jan. 2018	72,000
Cash received from Debtors	320,000
Discount allowed to Debtors	6,000
Bad Debts in the year	4,000
Sales returns at Bungoma Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2018 at invoice price	120,000

Prepare the following accounts in the Head Office Ledger (4 marks each)

- i. Branch stock account
- ii. Branch stock adjustment account
- iii. Goods sent to branch account
- iv. Branch income statement for the year 2018

QUESTION TWO (20 MARKS)

- a) Give the essential features of each of the following instruments, promissory note and bill of exchange (8 marks)
- b) Differentiate the following (4 marks)
 - i. Time bill and demand bill
 - ii. Trade bill and accommodation bill
- c) The information below relate to Hassan a trader for the month of may
May 4. He drew 3 bills on B of sh. 500 sh, 400 sh,300 payable on the second, third, and fourth month respectively.
May 12 He endorsed the first bill in favor of his customer C at sh. 475
May 19 He discounted the second the second bill with his banker for sh. 380
May 26 He was paid the proceeds of the 3rd bill at rebate of 5% on the total amount of the bill
On due dates the first and second bills were dishonored but the 3rd one was paid.

Required

Journal entries to show the above transaction (8 marks)

QUESTION THREE (20 MARKS)

- a) Explain why goods are normally marked at invoice price by the head office while sending them to the branch? (6 marks)
- b) X Ltd. has two departments, A and B. Data for the two departments for the year ending 31st December 2018 is given below.

	A Sh.	B Sh.
Opening Stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Sales	140,000	112,000
Wages	12,000	8,000
Carriage	2,000	2,000
Closing Stock: (i) Purchased goods	4,500	6,000
(ii) Finished goods	24,000	14,000
Purchased goods transferred: by B to A	10,000	
by A to B		8,000
Finished goods transferred: by A to B	35,000	
by B to A		40,000
Return of finished goods: by A to B	10,000	
by B to A		7,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Required

Prepare Departmental and consolidated Trading, Profit & Loss Accounts for the year ending 31st December, 2018 (14 marks)

QUESTION FOUR

Nyoike, Kemei, Lasoi and Mutuku, who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4:3:2:1, had a serious disagreement on 15 January 2019 which necessitated a dissolution of the partnership.

For the purpose of dissolution, their accountant extracted a balance sheet as at 1 February 2019 as follows:

	Sh. '000'	Sh. '000'
Non – current assets:		
Land and buildings		21,250.0
Plant and machinery		19,802.5
Furniture and fittings		7,500.0
Investments		<u>5,000.0</u>

	53,552.5
Current assets:	
Inventory	15,870.0
Debtors	9,602.5
Balance at bank	<u>782.5</u>
Total assets	<u>26,255.0</u>
Capital and liabilities:	
Capital account: Nyoike	10,000.0
Kemei	17,500.0
Lasoi	10,000.0
Mutuku	<u>7,500.0</u>
	45,000.0
General reserves	17,500.0
Current liabilities:	
Creditors	<u>17307.5</u>
	<u>79,807.5</u>

Additional information:

1. The assets, which were sold on piecemeal basis, realized cash as follows:

		Sh. '000'
10 February 2019	Inventory (partial)	8,750.0
16 February 2019	Debtors (partial)	7,330.0
27 February 2019	Investments	6,050.0
03 March 2019	Furniture and fittings	5,000.0
20 March 2019:	Land and buildings	17,500.0
	Debtors (partial)	1,250.0
	Inventory (balance)	6,875.0
15 April 2019:	Plant and machinery	16,400.0
	debtors (balance)	877.5

2. The partners agreed to set aside Sh. 1.25 million to meet realization expenses. Any cash available for distribution thereafter was to be shared immediately the creditors were paid in full.
3. The realization expenses which amounted to Sh. 1 million were paid on 15 April 2019.

Required:

Using the maximum possible loss method, prepare:

- (a) Statement showing how the proceeds should be shared.(10 marks)
- (b) Realization account and capital account to close off the book of the partners. (10 marks)

QUESTION FIVE(20 MARKS)

- a) Briefly explain the meaning of the following terms as used in insurance business.

- (i) Bonus in reduction of premium (2marks)
 - (ii) Surrender value (2marks)
 - (iii) Reinsurance. (2marks)
 - (iv) Annuity. (2marks)
 - (v) Commission on re-insurance ceded
- b) Explain the concept of “self-insurance” and how it works in businesses. (10 marks)