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(Knowledge for Development)

UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER
MAIN EXAMINATION

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

COURSE CODE: BBA 311

COURSE TITLE: FINANCIAL REPORTING 1

DATE: 18TH MAY, 2022 TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each **TIME:**

2 Hours

KIBU observes ZERO tolerance to examination cheating

QUESTION ONE (COMPULSORY)

- a) The conceptual Framework for Financial Reporting identifies faithful representation as a fundamental qualitative characteristic of useful financial information, primary users of the general purpose financial statements and the need for such financial information.

Required:

- i) Distinguish between qualitative and enhancing qualitative characteristics (4 marks)
- ii) Examine the primary users of the general purpose financial statements and their needs (6 marks)
- b) Kamau and Omondi advocates have been in practice since 2010. The following financial information is available.

Statement of the financial position as at 31 March 2021.

Capital Account	Sh.(000)	Fixed assets	Sh.(000)
Kamau	3,308	Furniture and Fittings	96
Omondi	3,000	Equipment	284
		Motor vehicle	1,504
		Investment in shares	3,000
	6,308		4,884
Current liabilities		Current assets	
Client's account	128	Outstanding fees	480
Accrued rent	136	Cash at bank office	1,212
Accrued salaries	132	Client	128
Total	6,704		6,704

Receipts and payments Accounts for the year ended 31 march 2021

Receipts	Sh.(000)	Payments	Sh.(000)
Fees for services rendered	3,552	Equipment	596
Client deposit for buying land	1,536	Drawings : Kamau : Omondi	300 300
Client's deposit for criminal	1,296	Deposit on land purchase contract for client	920
Receipt from client for disbursement :		Transport	224
Stationery	48	Office rent	896
Transport	60	Postage and stationery	152
Miscellaneous	92	Motor vehicle expenses	392
		Water & electricity	140
		Office repairs	72
		Salaries and wages	960
		Miscellaneous expenses	208

Additional information:

- i) Depreciation is to be provided for on reducing balance at 12% for furniture , 15% for equipment and 25 % for motor vehicle.
- ii) Fees in arrears at year end were sh. 1,280,000. The advocates have agreed to create a reserve fund against the fees arrears.
- iii) Accrued expenses were:
 - Telephone sh. 20,000
 - Rent sh. 108,000
 - Salaries sh. 112,000
- iv) In the year the criminal case client was defended in court. The advocates have raised an interim fee note for sh. 500,000.but no entries have been made in the books.
- v) Disbursements for stationery sh. 20,000, transport sh. 12,000 and miscellaneous expenses sh. 4,000 have been charged to the client's account.

Required:

- a) The advocates income and expenditure account for the year ended 31 March 2021 (6 marks)
- b) The client's Accounts for the period (6 marks)
- c) The statement of the financial position as at 31 March 2021 (8 marks)

(Total 30 marks)

SECTION B

QUESTION TWO

- a) Distinguish between bonus in reduction of premium and commission on reinsurance ceded in relation to insurance companies (4 marks)
- b) The following financial information relates to Bora insurance company Limited for the year ended 31 December 2019.

Trial balance as at 31 December 2019

ITEM	DR (000)	CR (000)
Ordinary share capital		900,000
Revaluation reserves		375,000
Retained earnings		225,000
Unearned premium reserves (1 January 2019) –Fire		300,000
- marine		750,000
Net earned premiums:- Fire		1,047,510
-Marine		1,945,920
Net commission paid:-Fire	25,995	

-Marine	52,035	
Net claims paid: Fire	418,380	
Marine	836,715	
Net claims outstanding (1 January 2019): Fire		540,270
-Marine		1,080,555
Management expenses	1,313,310	
Bad debts written off	37,500	
Treasury bills	1,493,250	
Treasury bonds	85,395	
Bank deposits	3,555,750	
Motor vehicle at net book value (1 January 2019)	7,500	
Equipment at net book value (1 January 2019)	108,105	
Amount due to other insurers		30,000
Amount due from other insurers	52,050	
Bank overdraft		120,000
Investment income		540,000
Other income		131,730
	7,985,985	7,985,985

Additional information:

- i) Management expenses are to be allocated to Fire and Marine businesses on the basis of net premiums earned. However, sh. 150 million of management expenses is to be charged to profit and loss account for the period.
- ii) Net claims outstanding as at 31 December 2019 were as follows:

	Sh.(000)
Fire	675,000
Marine	1,185,000
- iii) Depreciation on motor vehicles and equipment is to be provided on reducing balance basis at the rate of 20% and 10% per annum respectively.
- iv) Provisions for unexpired risks at 31 December 2019 are to be maintained at 50% and 80% of the respective net earned premiums for fire and marine businesses respectively.

Required:

- a) Revenue account for the year ended 31 December 2019 (6 marks)
- b) Income statement for the year ended 31 December 2019 (6 marks)
- c) Statement of the financial position as at 31 December 2019 (4 marks)

(Total 20 marks)

QUESTION THREE

a) The objective of IAS 41 is to establish the standard of accounting for agricultural activities that entails the management of the biological transformation of biological assets into agricultural produce. In the light of the above, you are required to examine the meaning of the following terminologies associated with the standard: (2 marks)

i) Biological assets (2 marks)

ii) Costs to sell

b) The following information relates to Mzee Mkulima on his farming activities for the year ended 30 April 2018.

	Stock as at 1.5.2017 (sh.)	Stock as at 30.4.2018 (Sh.)
Cattle food	75,000	41,250
Cattle	562,500	787,500
Poultry	67,500	101,250
Crops	30,000	37,500
Growing crops	22,500	33,750
Seeds	15,000	18,750
Poultry food	7,500	15,000
Fish	15,000	24,000
Fertilizers	37,500	22,500
Purchases in the year :		
Poultry	112,500	
Seeds	11,250	
Cattle	300,000	
Fish	7,500	
Cattle food	105,000	
Fertilizer	26,250	
Poultry food	22,500	
Sales during the year:		
Butter	11,250	
Milk	67,500	
Eggs	97,500	
Crops	157,500	
Flowers	11,250	
Fruits	30,000	
Cattle	270,000	
Poultry	105,000	
Fish	45,000	
Vegetables	37,500	
Expenses during the year :		
Wages	176,250	
Insurance	11,250	
Deprecation	15,000	
Repairs	9,000	
Farm produce consumed by		

Mzee Mkulima:		
Butter	3,000	
Milk	18,750	
Eggs	3,750	
Vegetables	4,500	
Poultry	1,500	
Fish	750	
Fruits	2,250	

Required:

Prepare the following accounts for Mzee Mkulima for the year ended 30 April 2018:

- | | | |
|------|---|-----------|
| i) | Crop account | (3 marks) |
| ii) | Dairy account | (3 marks) |
| iii) | Poultry account | (3 marks) |
| iv) | Fishing account | (4marks) |
| v) | A summarized profit and loss account for the period | |

(Total 20 marks)

QUESTION FOUR

The following balances relates to Juhudi Bank Ltd as at 31 December 2017.

	Sh.(000)
Government securities	13,542,935
Balance due from central bank	2,138,352
Interest income: loans and advances	2,512,419
Government securities	545,508
Deposits and placements with other banks	196,711
Fees and commission income	883,253
Foreign exchange income	147,376
Other incomes	2,031,859
Cash	3,015,005
Interest expenses: customer deposits	244,580

Deposits and placements from other banks	2,630
Others	247,315
Decrease in loan loss provision	25,341
Staff costs	1,453,471
Directors emoluments	16,097
Rental charges	181,867
Depreciation of plant, property and equipment	357,508
Amortization	65,673
Other operating expenses	1,409,393
Income tax expenses	473,535
Deposits and balances due from other banks	6,891,393
Loans and advances to customers	21,836,435
Investment properties	453,099
Property & equipment	2,602,876
Tangible assets	228,495
Other assets	2,420,657
Customer deposits	31,355,515
Deposits and balances due to other banks	53,322
Borrowings	4,521,390
Current tax	209,036
Other liabilities	1,893,316
Ordinary share capital	1,811,050
Share premium	10,543,037
Revaluation reserve	12,216
Retained earnings brought forward	407,176

Loan loss reserved	252,906
Proposed dividends	543,387
Letters of credit guarantees and acceptance	2,758,326
Contingent liabilities	8,517

Required:

- i) Statement of comprehensive income for the year ended 31 December 2017 (10 marks)
ii) Statement of financial position as at 31 December 2017 (10 marks)

(Total 20 marks)

QUESTION FIVE

Kopesha Ltd sells electronic equipment both on cash and installment basis. Hire purchase sales require a deposit of one-third of cash selling price with the balance payable in 18 equal monthly installments. No additional charge is made for the service. At the end of the year the company takes credit for the profit installment sales only in respect of the proportion represented by the deposit and installments actually received.

The following transactions took place during the two years ended 30 May 2019 and 2020.

	2019	2020
Cash sales	9,606,600	13,131,000
Installment sales	84,893,400	119,394,000
New TV sets purchased	69,300,000	75,119,700
Cash collection/installment contract: initial deposit	28,297,800	39,798,000
Monthly installments		
- 2019 sales	19,380,000	27,662,700
- 2020 sales		25,182,000
Stock at 30 May: New TV sets at cost	16,380,000	21,604,500

Required:

- a) Trading account in respect of cash sales for each of the year ended 30 May 2019 and 30 May 2020 (10 marks)
b) The gross profit on hire purchase for the two periods (10 marks)

(Total 20 marks)