



(Knowledge for Development)

# **KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2022/2023 ACADEMIC YEAR**

**THIRDYEARFIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE IN BUSINESS ADMINISTRATION**

**COURSE CODE: BBA311**

**COURSE TITLE: FINANCIAL; REPORTING I**

**DATE: 13<sup>TH</sup> DECEMBER, 2022**

**TIME: 9.00AM – 11.00AM**

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**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

## SECTION A

### QUESTION ONE

Fred Farm owes FM 2,000 for fertilizer to CEA, Nioro, M Ksh 350 for feed to Unga Ltd., Newtown and has borrowed from the National Co-operative Bank M 35,000 on 1.5.2016. The money from the bank is to be repaid in equal annual instalments over a period of 5 years, with an interest of 7.5% per year. At the time that the Balance Sheet is drawn up the farm has FM 3,500 in the bank account and still owed M 1,700 for wool sold to CEA, Nioro. Cash in hand is Ksh 125.

The following information was valued:

The valuation was as follows:

Item	Amount
Arable land	60,000
Sheep	12,000
Dairy cattle	35,000
Equipment	20,000
Buildings	40,000
Maize in store	15,000
Citrus orchard	60,000
Goats	5,000
Wool in stock	11,000
Citrus fruits in store	3,000
Cattle minerals in stock	700
Lambs for sale	9,000
bullocks for sale	20,000

- a. Prepare a Balance Sheet from the following data for Fred Farm at Bahati as the year ending 31st December 2016.
  - b. Do you think that, if the farmer applies for a loan from the National Co-operative Bank amounting to M 50,000, he will stand a good chance? What are the main points to be considered?
- ii. Explain the major differences between Cash Analysis Book and Net Farm Income
- iii. A farmer has bought a tractor for M 30,000. It is estimated that after 4 years the tractor will be so worn out that the costs of repair will be almost the same as the price of a new tractor.

- a) At that time the scrap value of the tractor is estimated to be M 5,000.  
 b) What will be the annual depreciation of the tractor?

iv. Bank loans are the easiest source of availing finance. Further, a bank loan is an extension of credit by a bank to a customer or business. Discuss

### QUESTION TWO

- a. The relationship between a bank and its customers can be broadly categorized into General Relationship and Special Relationship. If we look at Sec 5(b) of Banking Regulation Act, we would notice that bank's business hovers around accepting of deposits for the purposes of lending. In relationship to this statement 'Describe the Relationship arising out of the activities mentioned in the act is termed as special relationship' (8 marks)
- b. Following is the Trial Balance of XYZ Bank Ltd. as on 31.03.2017

Details	Dr (Ksh.)	Cr Ksh.
Share Capital		300,000
Cash in hand and with RBI	46,350	
Investments in Govl. of India	194,370	
Other Investments	155,630	
Gold Bullion	15,130	
Interest accrued on Investments	24,620	
Security Deposits of Employees		15,000
Savings Account Balance		7,420
Current Ledger Control Account		97,000
fixed Deposits		23,050
Security Premium Account		90,000
Statutory Reserve		140,000
Silver Bullion	2,000	
Constituents' Liability for acceptance and endorsements	56,500	
Buildings	65,000	
Furniture	5,000	
Borrowings from Banks		77,230
Money at Call and Short Notice	26,000	

Advances	200,000	
Profit and Loss Account Balance		6,500
Bills Discounted and Purchased	12,500	
Bills for Collection		43,500

Further, the Balance sheet after considering the following:

- (i) Provide rebate on bills discounted: Ks 5,000,000.
- (ii) A scrutiny of the Current Account Ledger reveals that there are accounts overdrawn to the extent of Ks 25,000,000 and the total of the credit balances is Ks 1, 22,000,000.
- (iii) Claims by employees for bonus amounting to Ks 15,000,000 are pending award of arbitration.
- (iv) Depreciation on building for the year amounts to Ks 5,000,000.
- (v) Out of profit for the year, 20 per cent thereof were transferred to statutory reserve, and the Directors proposed a dividend of 8 per cent, subject to deduction of tax.

You are required to prepare a Profit and Loss Account for the year ended on 31st March, 2017 (12 marks).

### QUESTION THREE

- a. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities. Analyze how Lending activities can be performed either directly or indirectly through capital markets in financial reporting of current liabilities (8 marks)
- b. From the following information are in the books of Kwai Bank Ltd as the year ends

Particulars	Ksh
Interest on Loan	25,90,000
Interest on Fixed Deposits	27, 50,000
Rebate on Bills discounted	4, 90,000
Commission	82,00
Establishment Charges	5, 40,000
Discount on Bills Discounted (net)	14, 60,000

Interest on Cash Credits	22, 30,000
Interest on Current Account	4, 20,000
Rent and Rates	1, 80,000
Interest on overdraft	15, 40,000
Directors' Fees	30,000
Auditors' Fees	12,000
Interest on Saving Bank Deposits	6, 80,000
Postage and Telegram	14,000
Printing and Stationery	29,00
Bad debts to be written off amounted to	4, 00,000
Profit before tax ( Provision for taxation may be made at 55% of net profit)	18, 35, 350
Profit before Provision for tax	36, 70,000
Net Profit	18, 16,650

During the year Income Tax proceedings of the previous years were concluded and the liability on this account worked out to.

Prepare the profit and Loss A/c for the year ended 31st march 2022 (12 marks)

#### QUESTION FOUR

- Establish how the accounting of banking companies are maintained with types of books (4 marks)

- b. Large corporations or even Smaller Companies have varied needs for insurance. Describe why most insurance companies offer a comprehensive set of products designed to protect business, assets and liabilities (4 marks)
- c. From the following are provided as per the year ending 31<sup>ST</sup> December 2020

Intimated in	Admitted in	Paid in	Ksh
1989	1989	1990	15,000
1990	1990	1991	10,000
1988	1989	1989	5,000
1988	1989	1990	12,000
1990	1991	1991	8,000
1990	1990	1990	102,000

Claim on account of Re-insurance was Ksh. 25,000

Required: Calculate the loss on account of claim to be shown in the revenue account for the year ending 31st December, 2020 (12 marks)

#### QUESTION FIVE

- a. Highlights the nature and characteristics of insurance. (4 marks)
- b. The life insurance fund of Cli Life Insurance Co. Ltd. was Ks. 34, 00,000 on 31st March, 2021. Its actuarial valuation on 31st March, 2021 disclosed a net liability of ks. 28, 80,000. An interim bonus of Ks. 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Ks. 1, 10,000 and to divide the balance between the policyholders and the shareholders. (8 marks)
- Show (a) the valuation balance sheet (4 marks)
- (b) the net profit for the two-year period, (4 marks)
- (c) the distribution of the profits