

**KARATINA UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**BACHELOR OF EDUCATION ARTS**

**COURSE CODE AND TITLE: BBM 201 – FINANCIAL ACCOUNTING 1**

**16 JUNE, 2022 TIME: 0900-1200 HRS**

**INSTRUCTIONS TO CANDIDATES**

Attempt question **ONE** and any other **THREE** questions.

**PLEASE TURN OVER**

**QUESTION ONE**

1. Discuss three roles of IASB (6mks)
2. Enumerate five qualities of good financial statement according to IASB (5mks)
3. According to IAS 40 investment property, explain
4. Investment property (2mks)
5. Disclosure requirements (2mks)
6. Discuss the following terms in company accounts highlighting their account treatment
7. Operating expenses
8. Corporation Tax
9. Finance cost
10. Revenue reserves
11. Capital reserves (10mks)

**QUESTION TWO**

The following were extracted from the books of Karu Ltd as at 31 December 2021

Sh.”000”

Ordinary share capital (sh.20 par value) 157,500

10%debenture 22,500

Share premium 18,000

Building at cost 112,500

Provision for depreciation on building (1 January 2014) 11,250

Fixtures and fittings at cost 144,000

Trade receivables 74,250

Trade payables 33,300

Sales 1,080,000

Purchases 949,500

Discount allowed 1,125

Discount received 2,925

Inventory (1 January 2014) 94,500

Returns outwards 18,000

Selling and distribution expenses 37,575

Administrative expenses 12,600

Bad debts written off 900

Provision for doubtful debts (1 January 2014) 4,050

Salaries and wages 29,250

Cash in hand 15,000

Bank balance 15,375

Retained earning (1January 2014) 81,450

Additional information:

1. Inventory as at 31 December 2021 was valued at Sh. 162,000,000
2. Hosanna Traders had been declared bankrupt and owed sh. 2,000,000 (included in the trader receivable). This amount is to written off.
3. Prepaid selling and distribution expenses as at December 2021 were sh. 300,000.
4. Salaries and wages outstanding as at 31 December 2021 were sh. 800,000
5. The company had not paid the interest on the debenture for the year ended 31 December 2021.
6. Depreciation on the building and fixtures and fittings is to be provided on cost at the rate 2% per annum and 10% per annum respectively.
7. The company directors have proposed a 10% dividend on the ordinary shares. A transfer of sh. 56,250,000 is to be made to the general reserved.
8. The provision for doubtful debts is to be retained at the same amount.

Required:

1. Income statement for the year ended 31 December 2021. (8mks)
2. Statement of financial position as at 31 December 2021. (7mks)

**QUESTION THREE**

1. Outline THREE limitations of financial ratio analysis (6mks)
2. The following are the summarized financial statements of Karu Limited

Statement of financial position as at 31 March:

2021 2020

``Sh. “million” Sh. “million Sh. “million” Sh. “million”

Non-current assets 2,050 2,000

Current assets

Inventories 225 200

Trade receivables 248 267

Cash at bank 20 493 33 500

Total assets 2,543 2,500

**Equity and liabilities**

Ordinary share capital (sh. 100 par value) 500 500

Retained earnings 1,273 1,200

1,773 1,700

**Non-current liabilities**

Loans from bank 500 600

Current liabilities 270 200

Total equity and liabilities 2,543 2,500

**Income statement for the year ended 31 March:**

**2021 2020**

**Sh. “000” Sh. “000”**

Revenue 1,833 2,000

Cost of sales (933) (1,000)

Gross profit 900 1,000

Less: expenses

Administration and selling expenses (350) (400)

Profit before interest and tax 550 600

Interest (60) (67)

Tax (165) (180)

325 353

Dividends (100) (100)

Retain profit 225 253

Required:

For each financial year, calculate the following:

1. Return on Equity.
2. Quick ratio.
3. Inventory days. (9 mks)

**QUESTION FOUR**

1. With reference to the statement of cash flows, briefly explain the following:
2. Investing activities (2mks)
3. Financing activities (2mks)
4. Operating activities (2mks)
5. The following is the income statement of financial position of Karu limited for the ended 31 December 2021

**Income statement sh. “000” sh. “000”**

Revenue 42,000

Cost of goods sold (28,000)

Gross profit 14,000

**Operating expenses**

Selling and administrative cost 7,100

Depreciation 1,700

Total operating costs (8,800)

Income before income taxes 5,200

Income tax expenses (1,560)

Net income 3,640

**Statement of financial position as at 31 December**

**2021 2020**

**Assets: sh. “000” sh. “000”**

Cash 6,000 4,400

Accounts receivable (Net) 4,540 4,800

Inventory 3,200 2,400

Property plant and equipment 19,200 16,000

Less accumulated depression (8,100) (6,400)

Total assets 24,840 21,200

**Liabilities and shareholders equity:**

Accounts payable 2,900 2,600

Income taxes payable 2,940 3,400

Other payables 1,900 1,000

Long-term debt 0 2,000

Common stock 9,260 8,000

Retained earnings 7,840 4,200

Total liabilities and shareholders equity 24,840 21,200

Required:

Statement of cash flow for the year ended 31 December 2021 using either direct or indirect method. (9mks)

**QUESTION FIVE**

1. Describe five importance of financial statements analysis (5 mks)
2. Discuss the following account standards
3. IAS 2- Inventories
4. IAS 16- property, plant and equipment
5. IAS 38- Intangible assets
6. IAS 36-impairment of assets
7. IAS 7-cash flow statements (10mks)

**QUESTION SIX**

1. Enumerate 5 components of equity in the statement of changes in Equity (10mks)
2. Differentiate:
3. Authorized share capital form Issued share capital (3mks)

(ii) Reserves from provisions (2mks)