



# **MACHAKOS UNIVERSITY**

**University Examinations for 2018/2019 Academic Year**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BANKING, ACCOUNTING & FINANCE**

**..... YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR**

**BACHELOR OF COMMERCE**

**DACC 110: FINANCIAL ACCOUNTING I**

**DATE:**

**TIME:**

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**INSTRUCTIONS:** Attempt Question One and any other Two Questions

## **QUESTION ONE (30 MARKS)**

- a) Explain the following terminologies as used in company accounts. (6 marks)
- i. Issued share capital
  - ii. Articles of association
  - iii. Companies limited by shares
- b) State and briefly explain any three methods of writing off hire purchase interest (6 marks)
- c) Company X is a contractor for the construction of a bridge in Kilifi County. The value of the construction is sh. 300,000 and payment is by engineers certificate subject to a retention of 10% of the amount certified. This is to be held by Kilifi County six months after the completion of the contract. The following information is extracted from the records of company X.

	shs
Wages on site	41,260
Materials delivered to site by supplier	58,966
Materials delivered to site by from store	10,180
Hire of plant	21,030
Expenses charged to contract	3,065
Overheads	8,330
Materials on site at 30/11/2008	11,660
Work certified	150,000
Payment received	135,000
Work in progress at cost	12,613
Wages accrued 30/11/2008	2,826

**Required:**

Prepare a contract account to 30/11/2008 and suggest a method by which profit could be prudently estimated. (8 marks)

- d) X and Y are partners who share profits and losses in the ratios of 3:2 respectively. Their balance sheet as at 31/12/2009 appeared as follows:-

Balance sheet			
	shs		shs
<b><u>FIXED ASSETS</u></b>		<b><u>CAPITAL ACCOUNTS</u></b>	
Land and buildings	250,000	A	300,000
Plant and machinery	350,000	B	300,000
Furniture/fittings	<u>15,000</u>		600,000
	615,000	reserves	150,000
		Creditors	75,000
<b><u>CURRENT ASSETS:</u></b>			
Stock	90,000		
Debtors	70,000		
Bank	<u>50,000</u>		
	<u>210,000</u>		
	<u>825,000</u>		
			<u>825,000</u>

On 1/1/2010, they admit Z as their partner on the following terms.

- a) Z was to bring shs 150,000 as capital and to pay shs. 50,000 as his share of goodwill which is to be retained in the business.
- b) It was agreed to revalue certain Assets before admitting Z as follows:-

	shs
Land and buildings	300,000
Plant and machinery	325,000
Furniture and fittings	20,000
Stock	80,000

c) The profit sharing Ratio of X, Y and Z will be 2:2:1 respectively:

**Required:**

- i. Revaluation account (4 marks)
- ii. Capital account (6 marks)

**QUESTION TWO (20 MARKS)**

Mohammed and James, traders in partnership as transporters, wholesalers and distributors, closes their accounts on 30/04/each year. Their trial balance as at 30<sup>th</sup> April 2013 appeared as follows:

	Shs	shs
Capital accounts: Mohamed		2,500,000
James		1,500,000
Motor vehicle at cost	25,000,000	
Provision for depreciation motor vehicle		7,500,000
Provision for bad debts		250,000
Debtors and creditors	8,500,000	4,400,000
Salaries and wages	1,500,000	
Transportation income		1,200,000
Sales and purchases	40,800,000	61,450,000
Returns outwards & inwards	2,250,000	4,500,000
Inventory on 1/5/2012	10,650,000	
Rent	180,000	
Water and electricity	48,000	
Telephone and postage	108,000	
Printing and stationery	54,000	
Petrol and oil	5,480,000	
Servicing and spares	2,025,000	
Legal fees expenses	150,000	
Insurance	730,000	
<u>Current Accounts:</u>		
Mohammed		450,000
James	290,000	
Loan and overdraft interest	753,000	
Bank charges	121,500	
Bank overdraft		2,550,000
Bank loan		1,540,000
	<u>98,640,000</u>	<u>98,640,000</u>

### Additional information

1. Salary at sh. 150,000 per month should be credited to the account of James.
2. Parties are entitled to interest on capital at 12% p.a.
3. Profits and losses are to be shared equally after allowing for partners salary and interest on capital.
4. Motor vehicles are to be depreciated at the rate of 25% p.a. using the straight-line method.
5. Provision is to be made for accounting and auditing fees at sh. 560,000.
6. Bad debts amounting to sh. 440,000 are to be written off.
7. Provision for bad debts should be increased by sh.60,000
8. Stocks as at 30/04/2013 were valued at sh.10,750,000

### Required:

- a) Comprehensive income statement including appropriation of profit and loss A/C for the year ended 30/4/2013. (13 marks)
- b) Statement of financial position as at 30/4/2013. (7 marks)

### QUESTION THREE (20 MARKS)

- a) Distinguish between Authorized share capital and Issued share capital. (2 marks)
- b) The trial balance of Jireh Limited as at 31/12/2009 was as follows.

	Dr. Shs "000"	Cr. shs "000"
Share capital (10,000 sh. 20 ordinary shares)		200
Purchases	1,220	
Sales		2,400
Debtors	4,000	
Creditors		3,740
Profit and loss (1/1/2009)		380
Plant at cost	1440	
Provision for depreciation: plant		400
Buildings		40
Building at cost	800	
Returns inwards	40	
Returns outwards		80
Selling expenses	140	
Bank		160
10% debentures		600
Stock (1/1/2009)	300	
Provision for bad debts		20
Operating expenses	180	
Administrative expenses	140	
Share premium		200
	<u>8,220</u>	<u>8,220</u>

### **Additional information**

1. Stock as at 31/12/2009 was sh. 360,000
2. Debentures interest has not been paid.
3. Depreciation on plant is 10% on cost and buildings at 20% on cost.
4. Directors propose to pay a dividend of sh.2 per share and transfer sh. 20,000 to general reserves.
5. Corporation tax is at the rate of 30% on profits.
6. Accrued selling expenses amount to sh. 30,000 while prepaid administrative expenses are sh. 40,000
7. Provision for bad debts is set at 5% of debtors.

### **Required**

- a) Comprehensive income statement for Jireh for the year ended 31/12/2009. (10 marks)
- b) Statement of financial position as at 31/12/2009. (8 marks)

### **QUESTION FOUR (20 MARKS)**

- a) The following are the financial statements of Mambo vipi account for the year ended 31/10/2017.

#### **STATEMENT OF FINANCIAL POSITION**

	Shs "000"
<u>Assets</u>	
Investments at cost	10,400
Land	8,800
Plant and machinery at cost	2,000
Buildings	10,000
Stock	11,000
Debtors	8,000
Bank	<u>200</u>
	<u>50,400</u>

#### **LIABILITIES AND CAPITAL**

Ordinary shares of sh. 20 each	8,000
Share premiums	2,600
Revaluation reserve	-
Profit & loss A/C	9,000
10% debentures	16,000
<u>Accumulated depreciation</u>	
Plant and machinery	800
Buildings	<u>2,000</u>
Creditors	8,000

Proposed dividends	<u>4,000</u>
	<u>50,000</u>
<b><u>Profit and loss account</u></b>	
	Shs
Sales	40,000
Cost of sales	<u>(20,000)</u>
Gross profit	20,000
Expenses (including interest)	<u>(12,000)</u>
Net profit	8,000
Dividends	<u>(4,000)</u>
Retained profit	4,000
Profit b/d	<u>5,000</u>
Profit c/d	<u>9,000</u>

### Required

- i. Gross profit percentage
  - ii. Net profit percentage
  - iii. Debtors turnover
  - iv. Creditors turnover
  - v. Current Ratio
  - vi. Return on investment
  - vii. Acid test ratio
  - viii. Stock turnover ratio
  - ix. Dividend cover
  - x. Debtors collection period (15 marks)
- b) Distinguish between income and expenditure A/C and receipts and payments Account (5 marks)

### QUESTION FIVE (20 MARKS)

- a) Using an example in each case, explain the three main methods of computing goodwill. (3 marks)
- b) Distinguish between a finance lease and an operating lease (4 marks)
- c) On 1<sup>st</sup> may, P. Burton sells goods to A. Smith valued at sh. 60,000. A. Smith accepts a bill of exchange for the amount payable in three months. On 1<sup>st</sup> June P. burton, being in need of money, discounted the bill with his bankers at 10% p.a discount. The bill is dully met at maturity. Show the following relevant entries in the ledger of P.burton.
  - i. A smiths account
  - ii. Bills receivable A/C

iii. Discount charges A/C

(8 marks)

d) Explain the following terminologies as used in contract accounting:-

i. Subcontracts

ii. Fixed price contracts

iii. Contract plant

iv. Direct expense

v. Architects certificate



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SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

**DATE: 25/7/2019**

**TIME: 8.30-10.30 AM**

**INSTRUCTIONS:** Attempt Question One and any other Two Questions

- a) The central bank of Kenya (CBK) as the regulatory body mandated to licence and supervise the operations of commercial banks in Kenya through the provisions of the CBK Act (cap 491) recently carried out an evaluation on the performance of three major commercial banks using CAMEL rating system. The composite rating based on the CAMEL scale of 1 to 5 is as given below.

BANK	COMPOSITE RATING
BARCLAYS BANK	1
COMMERCIAL BANK OF AFRICA	3
KENYA COMMERCIAL BANK	4

**Required:**

- i. interpret the results based on the composite parameter (3 marks)
- ii. Based on the interpretation made above, identify the kind of supervisory attention that CBK should direct to each bank. (3 marks)
- b) Explain the different types of pension fund benefits. (8 marks)
- c) Explain any three monetary regulation tools used by the government (6 marks)

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***Examination Irregularity is punishable by expulsion***



- d) State five objectives of bank regulation (5 marks)
- e) How do financial institutions help individual savers diversity their portfolio risks? Which type of financial institution is best able to achieve this goal? (5 marks)

### **QUESTION TWO (20 MARKS)**

- a) State and explain five risks faced by insurance companies (10 marks)
- b) Discuss the banking crisis that Kenya's financial system underwent in the 1980's and identify the measures that the government put in place to prevent recurrence. (10 marks)

### **QUESTION THREE (20 MARKS)**

- a) State three special functions of financial institutions. (3 marks)
- b) Explain the following financial risks
- i. Market risk (2 marks)
  - ii. Strategic risk (2 marks)
  - iii. Reputational risk (2 marks)
- c) Identify the reasons that may have led to the collapse of a number of investment securities firms in Kenya. (5 marks)
- d) State five functions of insurance regulatory authority. (5 marks)

### **QUESTION FOUR (20 MARKS)**

- a) Explain the following main functions of the front office of an investment bank (6marks)
- i. Investment management
  - ii. Sales and trading
  - iii. Research
- b) What benefits could a commercial banker obtain by getting into the investment banking business? (4 marks)
- c) The reform of the pension system in Kenya to date has had a positive impact on the occupational pension sector, but a more limited impact in terms of addressing the key weakness of the current system of poor overall levels of coverage and benefit adequacy. Explain the key motivations for further reform. (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) Financial institutions perform the essential function of channeling funds from those with surplus funds to those with shortage of funds. In the context of the above statement, identify and categorize the different types of financial institutions operating in our system. (10 marks)
- b) Highlight ten factors to consider when assessing banks earnings. (5 marks)
- c) State five objectives of bank regulations. (5 marks)