



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER -2018

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS / BACHELOR OF COMMERCE
(YR I SEM II)**

UNIT CODE:

UNIT TITLE: FINANCIAL REPORTING

DATE: 17TH DECEMBER, 2018

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

- (a) Jamila Traders has a head office in Nanyuki and an autonomous branch in Thika. The trial balances of the head office and the branch as at 30 September 2018 were as follows;-

	Head office Shs.	Shs.	Thika Branch Shs.	Shs.
Buildings (at cost)	3,500,000			
Good sent to branch		6,482,205		
Goods received from head office			6,387,330	
Accounts receivable	764,700		535,800	
Remittances from branch		7,548,750		
Remittances to head office			7,620,000	
Cash at bank	397,800		289,250	
Stock (at cost)	2,595,000			
Stock (at mark-up)			1,552,500	
Sales		13,000,000		9,202,200
Capital (1 October 2017)		6,040,925		
Bank overdraft				250,000
Furniture and fittings	779,500		230,500	
Purchases	13,626,600			
Rent and rates	395,400		197,250	
Salaries and wages	851,700		487,500	
Current accounts	8,931,555			8,836,680
General expenses	1,887,750		1,258,950	

Accounts payable		1,239,000		270,200
Drawings	783,375			
Provision for unrealized profits		<u>202,500</u>		
	<u>34,513,380</u>	<u>34,513,380</u>	<u>18,559,080</u>	<u>18,559,080</u>

Additional information;

1. Depreciation on furniture and fittings is to be provided at the rate of 10% per annum using the reducing balance method.
2. A bonus of 10% is payable to the staff at the head office and the branch. The bonus is based on net profits after charging these bonuses.
3. Goods sent to the branch in August 2018 and which had an invoice value of shs 94,875 were stolen in transit. The insurance company agreed to meet the claim to the extent of only 85% of the cost of the goods.
4. Goods were invoiced to the branch at 15% above cost. All sales were at a mark up of 33 ½ % above the cost to head office.
5. No shortages of stock were reported at the head office or the branch.

Required;

- (a) Prepare in columnar form for the head office, Thika Branch and the combined business, the income statement for the year ended 30 September 2018. (12 Marks)
- (b) The combined Statement of Financial Positions as at 30 September 2018. (8 Marks)

QUESTION TWO

Emojong, Barmoi and Kimani have been partners sharing profits and losses in the ratio 2:2:1. Accounts have been prepared on an annual basis to 31 December of each year. Emojong, the only active partner, died on 31 May 2018 and the remaining partners decided to cease business from that date. The assets are to be realized, outstanding debts paid and the remainder is to be shared by the partners (including the executors of Emojong's estate) in an equitable manner, distributions of cash being made as soon as possible.

A Statement of Financial Position prepared as at 31 May 2018 revealed the following position;

**EMOJONG, BARMOI AND KIMANI
STATEMENT OF FINANCIAL POSITIONS AT 31 MAY 2018**

	Cost	Accumulated depreciation	Net Book Value
	Shs. '000'	Shs. '000'	Shs. '000'
Fixed assets:			
Goodwill	12,500	-	12,500
Freehold land and buildings	18,750	-	18,750
Plant and machinery	16,625	6,975	9,650
Fixtures and fittings	3,750	1,625	2,125
Motor vehicles	<u>4,000</u>	<u>3,000</u>	<u>1,000</u>
	<u>55,625</u>	<u>11,600</u>	<u>44,025</u>
Current assets			
Stock		8,000	
Debtors	8,125		
Less: Provision for	<u>750</u>	7,375	

doubtful debts			
Cash		<u>20</u>	
		15,395	
Current liabilities			
Creditors	7,125		
Bank overdraft	<u>16,045</u>	<u>23,170</u>	<u>(7,775)</u>
			<u>36,250</u>
Financed by;			
Capital accounts			
Emojong			12,500
Barmoi			7,500
Kimani			5,000
			25,000
Current accounts;			
Emojong		5,000	
Barmoi	<u>3750</u>		<u>8,750</u>
			33,750
Long-term liabilities			
Loan – Emojong			2,500
			36,250

Additional information;

1. Premiums have been paid on life assurance policies for each partner to provide the firm with cash on death. The premiums have been charged to insurance expense, and the cash payable on death of any partner is shs. 5,000,000
2. The assets were duly sold and monies received as follows;-

		Shs. '000'
14 June 2018	Life policy on Emojong's life	5,000
	Life policies on the lives of Barmoi and Kimani surrendered	2,500
16 July 2018	Freehold land and buildings	25,000
	Debtors (part)	3,750
	Stock (part)	2,500
20 August 2018	Plant and machinery	6,375
	Fixture and fittings	1,500
	Motor vehicles	625
15 October 2018	Stock (Reminder)	4,500
	Debtors (Reminder)	5,250

3. Provision was to be made for dissolution expenses of shs. 300,000
4. As soon as sufficient money was available to pay all outstanding creditors, this was done, discounts being received amounting to shs. 125,000
5. Dissolution expenses amounted to shs. 250,000 and this was paid on 31 October 2018.

Required;

- (a) Statement showing how the proceeds of the dissolution would be shared between the partners. (15 Marks)

QUESTION THREE

ABC Ltd. Purchases gas cookers at sh. 3,500 each and sells them through consignees at sh. 5,000 each. Each consignee is entitled to a commission of 5% on sales from consigned goods and full recovery from sales made of any expenses incurred on the consigned goods.

The following transactions took place between ABC Ltd. And XYZ Ltd, a consignee, during the three-month period ended 30 June 2018.

1. ABC Ltd. Sent 200 gas, cookers to XYZ Ltd and incurred the following costs.
 - Packing - sh. 16,000
 - Insurance - sh. 30,000
 - Transport - sh. 42,000
2. On receipt of the cookers, XYZ Ltd incurred sh. 12,000 on unpacking and preparing the cookers for sale.
3. XYZ ltd sold 160 cookers and incurred carriage out costs of sh. 1,800. Other costs incurred by XYZ ltd in the period included casual wages sh. 15,000, advertising expenses sh. 5,000 and storage cost sh. 12,000.
4. Some customers returned gas cookers to XYZ ltd after experiencing gas leakage. XYZ ltd spent sh. 10,000 to repair the cookers.
5. In order to sell the remaining 40 cookers, they were all fitted with additional safety gadgets at a total cost of sh. 12,000 which was paid by XYZ ltd.
6. XYZ ltd sold 30 of the cookers fitted with the additional safety gadgets at sh. 6,000 each.
7. XYZ ltd sent ABC ltd an account sales on 30 June 2015 enclosing a cheque for sh. 800,000

Required;

The accounts listed below in the books of ABC ltd for the three-month period ended 30 June 2018.

- (i) Goods sent on consignment account. (8 Marks)
- (ii) XYZ ltd Account (7 Marks)

QUESTION FOUR

The following trial balance was extracted from the books of Lina Insurance Company ltd. As at 31 December 2014.

		Shs. '000'	Shs. '000'
Net premium written	Fire		53,810
	motor		107,691
Unearned premiums as at 1 January 2014.	Fire		36,018
	Motor		72,037
Net commission paid;	Fire	1,711	

	Motor	3,469	
Net claims paid;	Fire	27,892	
	Motor	55,781	
Net claims outstanding as at 1 January 2014;	Fire		36,018
	Motor		72,037
Management expenses to be charged to revenue account		77,554	
Management expenses not to be charged to revenue account		10,000	
Bad and doubtful debts		2,500	
Treasury bills		99,550	
Treasury bonds		5,693	
Motor vehicle (Net book value)		500	
Deposits in banks		237,050	
Equipment (Net book value)		7,207	
Bank overdraft			8,000
Amounts due to other insurance companies			2,000
Amounts due from other insurance companies		3,470	
Share capital			60,000
Investment income			36,000
Other income			8,782
Revaluation reserve			25,000
Retained earnings as at 1 January 2014			<u>15,000</u>
		<u>532,3999</u>	<u>532,399</u>

Additional Information;

Management expenses to be charged to revenue account are to be apportioned on the basis of net premiums written. The management made the following estimates as at 31 December 2014;

		Shs. '000'	
(i)	Unearned premiums;	Fire	20,000
		Motor	50,000
(ii)	Net outstanding;	Fire	45,000
		Motor	79,000

Required;

- (a) Revenue accounts, showing results of the fire and motor departments and combined business, for the year ended December 2017. (8 Marks)
- (b) Statement of Profit or loss account for the year ended 31 December 2017. (7 Marks)