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MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS 2012/2013 ACADEMIC YEAR

END OF SEMESTER I EXAMINATIONS

FOR THE DEGREE OF
EXECUTIVE MBA

EXAM CODE:- MBA-800

COURSE TITLE:- FINANCIAL ACCOUNTING

DATE:- 18TH FEBRUARY, 2013 TIME:- 9.00A.M. - 12.00NOON.

INSTRUCTION TO CANDIDATES

➤ SEE INSIDE.

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MBA 800: FINANCIAL ACCOUNTING
INSTRUCTIONS TO CANDIDATES
Answer Question One and Any Other Three Questions

QUESTION ONE

*Profit & loss
 Assets & liabilities
 Control
 Credit & debit*

(a) Explain the key objectives of accounting as a practice in a business organization of your choice (5 marks)

(b) State four users of accounting information and why the users may be interested in such reports (8 marks)

*Customers
 Shareholders
 Owners
 Suppliers*

(c) Using examples describe the accounting equation and the elements of the equation (6 marks)

fixed assets + current assets = capital + liabilities/short/long

(d) Briefly discuss the concept of relevance and reliability in relation to content of a financial report (6 marks)

financial decisions should be made with regard to financial data i.e. the must be enough evidence to show how given figures are arrived at in the bal. sheet (Total 25 marks)

QUESTION TWO

Kimeli has been trading for a number of years as an electrical appliance retailer and repairer in premises which he rents at an annual rate of K sh1, 500,000 payable in arrears. Balances appearing in his books at 1 January 2013 were as follows:

	K. sh '000'	K.sh'000'
Capital account		1,808
Motor van		1,200
Fixtures and fittings		806
Provision for depreciation on motor van (credit)		720
Provisions for depreciation on fixtures & fittings (credit)		250
Inventory at cost		366
Receivables for credit sales:		
Brown	160	
Blue	40	
Stripe	<u>20</u>	
		220
Cash at bank		672
Cash in hand		5
Payables for supplies:		
Live	143	
Negative	80	
Earth	<u>73</u>	
		296
Amount owing for electricity		45
Local taxes paid in advance		100

Cash flow

Although kimeli has three credit customers the majority of his sales and services are for cash, out of which he pays various expenses before banking the balance.

The following transactions took place during the first four months of 2013: Ksh. '000'

	January	February	March	April
	K sh	K sh	K sh	K sh
Suppliers' invoices:				
Live	468	570	390	602
Negative	-	87	103	64
Earth	692	-	187	-
Capital introduced		500		
Banking's of cash (from cash sales)	908	940	766	1,031
Expenditure out of cash sales before banking:				
Withdrawals on account	130	120	160	150
Stationery	12	14	26	21
Travelling	6	10	11	13
Petrol and van repairs	19	22	37	26
Sundry expenses	5	4	7	3
Postage	12	10	15	19
Cleaner's wages	60	60	65	75
Goods invoiced to credit customers:				
Brown	66	22	10	12
	120	140	130	180
Blue				
Stripe	44	38	20	48
Cheque payments (other than those to suppliers):				
Telephone	40	49	59	66
Electricity	62	47	20	106
Local taxes	-	-	220	-
Motor van (1 February 2013)	-	800	-	-
Unbanked at the end of April	-	-	-	12

kimeli pays for goods by cheque one month after receipt of invoice, and receives a settlement discount of 15% from each supplier.

Credit customers also pay by cheque one month after receipt of invoice, and are given a settlement discount of 10% of the invoice price.

Required:

Write up the ledger accounts of Kimeli for the four months to 30 April 2013, and extract a list of account balances after balancing off the accounts. (15 Marks)

QUESTION THREE

TP PL

The following trial balance has been extracted from the books of Mr. Patel's wholesale business for the year ended 31 March 2012.

	KSh. 000	KSh.000	
Capital		83,887	Capital Bal
Sales		259,870	Trading Bal
Trade creditors		19,840	Bal
Returns out		13,407	Trading
Provision for doubtful debts	$(\frac{3}{100} \times 24,500) = 735$	512	PL
Discounts allowed	2,306		PL
Discount received		1,750	PL
Purchases	135,680		
Returns inwards	5,624		
Carriage outwards	4,562		
Drawings	18,440		Bal
Carriage inwards	11,830		
Rent, rates and insurance	$(120,000 + 5,435,000)$	25,973	PL
Heating and lighting	$(+ 1,360,000)$	11,010	PL
Postage, stationery and telephone		2,410	PL
Advertising		5,980	PL
Salaries and wages		38,521	PL
Bad debts		2,008	PL
Cash at hand		534	Bal
Cash at bank		4,440	Bal
Stock as at 1 April 2011		15,654	T
Trade debtors		24,500	Bal
Fixtures and fittings		120,740	Bal
Provision for depreciation on fixtures and fittings		50,946	PL
Depreciation on FF $\frac{10}{100} \times 120,740 = 12,074$	430,212	430,212	

The following additional information as at 31st March 2012 is available:

- (i) Stock at the close of the business was valued at Sh. 17,750,000 ✓
- (ii) Insurance have been prepaid by sh.1,120,000 ✓
- (iii) Heating and lighting is accrued by sh 1,360,000 ✓
- (iv) Rates have been prepaid by sh 5,435,000 ✓
- (v) The provision for doubtful debts is to be adjusted so that it is 3% of the trade debtors. ✓
- (vi) Depreciate fixtures and fittings at 10% p.a using straight-line method ✓

Required:

- (i) Trading, Profit and Loss account for the year ended 31 March 2012 (9 marks)
- (ii) Balance sheet as at 31st March 2012 (6 marks)

$$\begin{array}{r} 735 \\ 512 \\ \hline 223 \end{array}$$
 do Prov \rightarrow 512
 3
 new \rightarrow 735

QUESTION FOUR ✓

You have been provided with the following accounts of Mamba Ltd for the year ended 31st march 2012.

Balance sheet as at 31 march 2012	Shs.	Shs.
Assets		
Non-current assets		
Freehold property		480,000
Plant and machinery		800,000
Motor vehicles		200,000
Furniture and fittings		200,000
Current assets		
Stocks	1,000,000	
Debtors	400,000	
Investments	<u>120,000</u>	<u>1,520,000</u>
Total assets		<u>3,200,000</u>

Capital and Liabilities

Capital

Issued and fully paid 400,000 sh. 1		
Ordinary shares		400,000
Capital reserve		200,000
Revenue reserve		<u>800,000</u>
Owner's equity		1,400,000

Long term liabilities

10% Debentures		400,000
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Current liabilities

Trade creditors	238,400	
Bank overdraft	878,400	
Corporation tax	176,000	
Dividends payable	<u>107,200</u>	<u>1,400,000</u>
Total capital and liabilities		<u>3,200,000</u>

Profit and loss account for the year ended 31 March 2012

	Shs.
Sales (on credit)	<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000
Less: debenture interest	<u>(40,000)</u>
Profit before tax	400,000

Corporation tax	(176,000)
Ordinary dividends proposed	(107,200)
Retained profit transferred to revenue reserve	<u>116,800</u>

Additional information

- The purchases for the year were sh. 2,160,000 while the cost of sales was sh. 3,000,000.
- The market price of Mamba Ltd ordinary shares as at 31 March 2012 was sh.5.

Required

(a) Compute the following ratios for Mamba Ltd.

- | | | |
|-------|--|-----------|
| (i) | Return on capital employed | (2 marks) |
| (ii) | The profit margin | (2 marks) |
| (iii) | Current ratio | (2 marks) |
| (iv) | Liquid ratio | (2 marks) |
| (v) | Stock turnover ratio <i>Cost of goods sold / Average stock</i> | (2 marks) |
| (vi) | Dividend yield ratio <i>Dividend / Share</i> | (2 marks) |
| (vii) | Price earnings ratio. <i>market price / Share Earnings / Share</i> | (3 marks) |

Ratio

QUESTION FIVE

The summarized annual financial statements in respect of Rasha Limited for 2011 and 2012 are as follows:-

	31 st October, 2012	31 st October, 2011
Assets	Shs '000'	Shs '000'
Property plant and equipment (Net)	165,000	147,500
Stocks	30,000	25,000
Debtors	15,000	12,500
Prepayments	2,500	5,000
Cash	7,500	10,000
Total Assets	220,000	200,000
Capital and Liabilities		
Issued share capital (sh. 1 per share)	120,000	110,000
Retained profit	67,500	60,000
Creditors	10,000	12,500
Accrued expenses	7,500	5,000
Provision for taxation	15,000	12,500
	220,000	200,000

(325)

*2.160
4.30
1200*

5

lit

Bar

Profit and loss statement for year ended 31st October 2012.

Sales from operations	Shs '000'
Cost of sales	240,000
Gross operating profit	165,000
Operating expenses (including depreciation of sh 5,000)	75,000
Net profit before taxation	37,500
Provision for taxation	37,500
Net profit for the year	17,500
	20,000

Required

Prepare a cash flow statement using *indirect approach method* of Rasha limited

(15 Marks)

QUESTION SIX

Cashflow

Explain the meaning and purpose of the following terms as used in accounting

- (a) Consistency concept - *stick to one system* (3 marks)
- (b) Prudence concept - *Guess Not too high, Not too low* (3 marks)
- (c) Un-adjusted trial balance *before adjustments to ledger a/c* (3 marks)
- (d) End of period adjustments *Revenue Recognition* (3 marks)
- (e) Accounting equation *Assets = Capital + liabilities* (3 marks)

END