



MUEO

MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FIRST SEMESTER EXAMINATION

FOR MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 800

COURSE TITLE: FINANCIAL ACCOUNTING

DATE: 1ST MARCH, 2010 **TIME:** 9.00 A.M. – 12.00 NOON.

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

MBA 800: FINANCIAL ACCOUNTING

INSTRUCTIONS TO CANDIDATES: ANSWER ANY FOUR QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS.

QUESTION ONE

The following is the trial balance of Bargot Limited, a wholesale company as at 30th November 2009

| | Shs'000" | Shs.'000" |
|----------------------------------|----------------|----------------|
| Property, plant and equipment | 221,350 | |
| Accumulated depreciation | | 57,880 |
| Accounts receivable | 103,046 | |
| Provision for doubtful debts | | 2,220 |
| Insurance expense | 1,086 | |
| Cash at bank | 147,928 | |
| Accounts payable | | 82,558 |
| Sales allowances and returns | 5,066 | |
| Purchases and sales | 426,174 | 526,016 |
| Purchases allowances and returns | | 4,008 |
| Rates and rent | | |
| Rates and rent | 524 | |
| Salaries and wages | 122 | |
| Advertisement | 784 | |
| Bad debts | 1,952 | |
| Ordinary share capital | | 200,000 |
| Profit and loss account: | | 35,350 |
| | <u>908,032</u> | <u>908,032</u> |

Additional information

1. Depreciation on property, plant and equipment is to be provided at the rate of 10% using the straight line method.
2. Provision for doubtful debts is to be increased to Shs.2,458,000
3. Insurance expense includes Shs.86,000 paid on 1st October 2009 for a policy of four months.
4. As at the trial balance date, salaries outstanding not yet recorded amounted to Shs.11,000.
5. The estimated tax for the year amounted to Shs.25,700,000
6. Bargot Limited received on invoice for advertisement services rendered to it amounting to Shs.24,000 on 30th November 2009. The accounts clerk who received the invoice filed the invoice without making any entries.
7. Bargot Limited had delivered to a customer goods amounting to Shs.501,000. The customer's yet to be billed for the same.
8. Inventory as at 30th November 2009 amounted to Shs.25,460,000
9. The directors have proposed an ordinary dividend of 10%

Required:

- a) Income statement of Bargot Limited for the year ended 30th November 2009.(12 Marks)
- b) Balance sheet of Bargot Limited as at 30th November 2009.

(8 Marks)

(Total 20 Marks)

QUESTION TWO

The balance sheet and income statement extract of Mali Mingi Ltd. are as given below. The industrial average ratios are also appended.

MALI Mingi Ltd Balance Sheet. As at 31st December 2009.**Shs."000"**

| | |
|--|-----------------|
| Assets: | |
| Fixed assets (net) | 30,000 |
| Current assets: | |
| Cash and bank | 5,000 |
| Receivable | 15,000 |
| Inventories | 20,000 |
| Prepaid expenses | 2,500 |
| Others | 2,500 |
| Total | 75,000 |
| Liability & Equity: | sh."000" |
| Ordinary share capital sh.10 per value | 10,000 |
| Reserves and surplus | 22,500 |
| Long term debt | 12,500 |
| Short term bank borrowing | 15,000 |
| Trade creditors | 10,000 |
| Provisions | 5,000 |
| Total | 75,000 |

Mali Mingi Ltd. Income statement for the year ended 31st December 2009.

| | |
|--------------------------------|-------------------------|
| Net sales | 95,000 |
| Cost of goods sold | (72,000) |
| Gross profit | 23,000 |
| Operating expenses | (10,500) |
| Operating profit | 12,500 |
| Non operating surplus | 2,600 |
| Profit before interest and tax | 15,100 |
| Interest | (5,000) |
| Profit before taxes | 10,100 |
| Taxes | (5,000) |
| Profit after taxes | 5,100 |
| Dividends | 1,800 |
| Retained earnings | 3,300 |
| Ratio | Industry average |
| Current ratio | 1.5 |
| Acid test ratio | 0.80 |
| Debt to equity ratio | 1.5 |
| Times interest earned ratio | 3.5 |
| Inventory turnover | 4.0 times |
| Average collection period | 60 days |
| Net profit margin | 15% |
| Gross profit margin | 25% |
| Return on equity | 12% |

Total asset turnover ratio 1.0 times

Additional information

The ending balances of inventory, receivable and payable may be taken as representative of the average amount during the year.

Required

- Evaluate the financial performance and liquidity position of Mali Mingi Ltd with reference to the industry standards. (12 Marks)
- Compute the gearing position of the company. What are the practical benefits of using borrowed money in financing the business? (4 marks)
- What are the limitations of using ratios in managerial decision-making? (4 marks)

(Total 20 Marks)

QUESTION THREE

- Your colleagues are discussing contemporary issues in accounting profession over lunch hour. They have disagreed over whether the profession should be regulated or not. Having heard you are an Executive Masters in Business Administration student they sought your intervention. Critically evaluate whether accounting should be regulated or not. (10 Marks)
- Identify the users of accounting information and their information needs. (10 Marks)

(Total 20 Marks)

QUESTION FOUR

As the Finance Director of Sell Sheller Business you have been presented with the following bank accounts for January 2010 prepared by an accountant who was sacked last month due to negligence.

| 2010 | Particulars | sh | 2010 | Particulars | sh |
|--------|-------------|---------------------|--------|--------------------------------------|---------------------|
| 1-Jan | Balance | 1,507,710.00 | 2-Jan | Electricity Board | 43,100.00 |
| 9-Jan | Sales | 1,370,000.00 | 2-Jan | John Jones Ltd Printers' Printers | 149,100.00 |
| 17-Jan | Sales | 168,540.00 | 4-Jan | Ltd | 29,300.00 |
| 23-Jan | T White Ltd | 310,000.00 | 5-Jan | Kingsway Products | 37,080.00 |
| 24-Jan | Sales | 150,000.00 | 12-Jan | Harold Smith Ltd Gray's Machines | 138,320.00 |
| 30-Jan | Sales | 44,700.00 | 17-Jan | Ltd | 645,100.00 |
| 31-Jan | Sales | 210,000.00 | 24-Jan | Giant displays | 70,560.00 |
| | | | 26-Jan | P Swann | 124,640.00 |
| | | | 30-Jan | Deposit Account | 2,000,000.00 |
| | | | 30-Jan | Wages | 320,400.00 |
| | | | 31-Jan | Balance c/d | 203,350.00 |
| | | 3,760,950.00 | | | 3,760,950.00 |

On 6 February 2010, Sell Sheller Business received the following business bank statement for the previous month.

| 2010 | Particulars | Payments | Receipts | Balance |
|--------|------------------------|--------------|--------------|--------------|
| 1-Jan | Balance | | | 1,468,210.00 |
| 3-Jan | Bank credit | | 100,000.00 | 1,568,210.00 |
| 4-Jan | 145688 | 149,100.00 | | 1,419,110.00 |
| 5-Jan | 145686 | 60,500.00 | | 1,358,610.00 |
| 6-Jan | Charges | 15,400.00 | | 1,343,210.00 |
| 9-Jan | Standing order | 12,000.00 | | 1,331,210.00 |
| 10-Jan | Bank credit | | 1,370,000.00 | 2,701,210.00 |
| 11-Jan | 145687 | 43,100.00 | | 2,658,110.00 |
| 13-Jan | 145690 | 37,080.00 | | 2,621,030.00 |
| 17-Jan | Sundry Credit | | 168,540.00 | 2,789,570.00 |
| 18-Jan | 145691 | 138,320.00 | | 2,651,250.00 |
| 20-Jan | 145689 | 29,300.00 | | 2,621,950.00 |
| 23-Jan | Sundry Credit | | 310,000.00 | 2,931,950.00 |
| 26-Jan | Standing order | 44,000.00 | | 2,887,950.00 |
| 27-Jan | Bank credit Deposit | | 150,000.00 | 3,037,950.00 |
| 30-Jan | account | 2,000,000.00 | | 1,037,950.00 |
| 30-Jan | Sundry Credit | | 44,700.00 | 1,082,650.00 |
| 31-Jan | 145693 | 70,560.00 | | 1,012,090.00 |

On 8 February 2010, you discover that the Sales debited in the cash book on 31 January 2010 should have read sh 230,000 and not sh 210,000 and the business is also advised by the bank that the standing order charge of sh 44,000 on 26th January was made in error and that the bank account has now been credited with sh 44,000.

Required:

a) Prepare the bank reconciliation statement as at 31 January 2010. (10 Marks)

b) What are the causes of difference between a cash book and a bank statement?
(10 marks)

(Total 20 Marks)

QUESTION FIVE

The comparative balance sheets of Donald Ltd. are shown below.

DONALD LTD Balance Sheet December 31

| | 2009 Sh | 2008 Sh |
|--------------------------|-------------|-------------|
| Current assets: | | |
| Cash | 319,000 | 353,000 |
| Accounts receivable | 888,000 | 999,000 |
| Merchandise inventory | 1,136,000 | 1,077,000 |
| Total current assets | 2,343,000 | 2,429,000 |
| | | |
| Capital assets | 5,711,000 | 5,326,000 |
| Accumulated amortization | (3,842,000) | (3,695,000) |

| | | |
|---|-------------------------|-------------------------|
| Total assets | <u>4,212,000</u> | <u>4,060,000</u> |
| Current liabilities: | | |
| Accounts payable | 897,000 | 909,000 |
| Accrued liabilities | 157,000 | 182,000 |
| Total current liabilities | 1,054,000 | 1,091,000 |
| Bonds payable | 1,000,000 | 1,500,000 |
| Mortgage payable | 800,000 | 450,000 |
| Total liabilities | <u>2,854,000</u> | <u>3,041,000</u> |
| Shareholders' equity: | | |
| Equity shares | 850,000 | 700,000 |
| Retained earnings | <u>508,000</u> | <u>319,000</u> |
| Total shareholders' equity | 1,358,000 | 1,019,000 |
| Total liabilities and shareholders' equity | <u>4,212,000</u> | <u>4,060,000</u> |

Additional information

1. On April 15, 2009, Donald sold capital assets that cost sh158,000, with a book value of sh87,000, for sh80,000.
2. On June 30, 2009, Donald issued equity shares for capital assets. The equity shares had a current market value of approximately sh47,000.
1. On July 1, 2009, Donald issued a stock dividend valued at sh25,000 to shareholders of record on June 20, 2009.
2. On August 31, 2009, bonds with a net book value of sh500,000 were retired for sh487,000.
3. On December 31, 2009, Donald declared and paid equity share cash dividends of sh15,000.

Required

- a) Prepare a cash flow statement for the year ending December 31, 2009. Use the indirect method to report the operating activities. (14Marks)
 - b) Describe the usefulness of cash flow statement to the management (6 Marks).
- (Total 20 Marks)**

QUESTION SIX

- a) Explain the meaning of the following terms:
 - i. Cost concept,
 - ii. Going Concern concept
 - iii. Prudence concept
 - iv. Business entity concept

(8 Marks)
- b) Explain the qualitative characteristic of accounting information to users. (8 Marks)
- c) How can the accounting information be made more reliable? (4 Marks)

(Total 20 Marks)