



MUEO

MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS
2013/2014 ACADEMIC YEAR**

END OF SEMESTER I EXAMINATIONS

**FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION**

EXAM CODE:- MBA 800

COURSE TITLE:- FINANCIAL ACCOUNTING

DATE:- 10TH FEBRUARY, 2014

TIME:- 9.00A.M. - 12.00 NOON.

INSTRUCTION TO CANDIDATES

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MBA 800- FINANCIAL ACCOUNTING

EXAMINATION FOR 2013/2014 ACADEMIC YEAR

Instructions: Answer question one and any other three

Question One

- (a) Knowledge of accounting processes and fields is important to all corporate and non-corporate managers of today. Discuss the uses and purpose, processes of financial accounting as a specialization of accounting. (10 marks)
- (b) Discuss the justifications for regulation of the financial accounting and reporting for corporate organizations in Kenya (10 marks)
- (c) Using examples, explain the differences between the following terms as used in financial accounting
- (i) Assets and liabilities (4 marks)
 - (ii) Accruals and prepayments (4 marks)
 - (iii) A ledger and a journal (4 marks)
- (d) State and explain four qualitative characteristics of a financial report (8 marks)

(Total 40 marks)

Question Two

The following balances stood in Mr. Akaraga's business books as on 1 September 2013

Cash in hand	Shs.	35,200
Cash in bank		489,000
Stock in hand		140,000
Debtors – Orodi		62,000
Kamau		14,000
Creditors – Musa Traders		140,200

During the month, the following transactions took place:

September	2	bought goods on credit from Musa Traders shs. 48,000
	3	Paid insurance premium in cash shs 26,000
	5	Paid Musa Traders sh. 180,200 by cheque
	9	Bought goods paying them by cheque shs 33,600
	12	Sold goods to Orodi on credit for shs 84,000
	17	Sold goods to Kamau on credit for shs 185,000
	23	Received a cheque from Kamau on account shs 159,000 and banked it
	27	Received cash shs 34,000 from Orodi
	28	Paid salaries by cheque 93,000
	30	Withdrew from bank shs 15,000 for personal use

Required

- (a) Determine Mr. Akaraga's business capital on 1st September 2013 (3 marks)
 (b) Write up the three column cash book for the month September 2013 and make all relevant postings in the ledger and balance all accounts (12 marks)
 (c) Extract a trial balance as at 30th September 2013 (5 marks)

Question Three

- (a) The following list of balances as at 31 December 2013 was extracted from the books of Mareba Ltd.

	Shs.000	Shs.000
Ordinary share capital		12,000
Share premium account		2,000
General Reserves		3,000
Profit and loss account (1 st Jan 2013)		1,500
8% Preference Shares		3,000
10% Debentures		2,000
Cost of goods sold	35,000	
Rates, light and heat	1,140	
Telephone and postages	560	
Salaries	2,100	
Directors emoluments	1,200	
Motor vehicle expenses	2,410	
Sales		50,000
Debtors	2,170	
Stock in trade at cost	3,800	
Freehold property at cost	14,000	
Fixtures and fittings at cost	12,000	
Provision for depreciation on fixtures and fittings		7,200
Motor vehicle at cost	8,000	
Provision for depreciation on motor vehicles		1,600
Bank balance	700	
Creditors		780
TOTAL	<u>83,080</u>	<u>83,080</u>

Additional information

- The authorized capital of ABC ltd is sh.25, 000,000
- Rates, light and heat charges prepaid as at 31st December 2013 amount to sh.230,000
- Accrued charges as at 31st December 2013 were:

Telephone and postages	Sh.90, 000
Motor vehicle expense	Sh. 30,000
- Direct method of depreciation is provided annually as follows:

Fixture and fittings 5%
 Motor vehicle 20%

5. The directors have recommended that a dividend of 10% be paid on the ordinary shares for the year ended 31 December 2013. Sh. 500,000 to be transferred to general reserve at year-end.
6. Corporation tax is at the rate of 35% and is estimated to be Shs. 400,000 for the current year.

Required

- (i) The trading, profit and loss and appropriation account for the year ended 31st December 2013 (12 marks)
- (ii) Balance sheet as at 31 December 2013 (8 marks)

Question Four

You are given the following summarized accounts of ABC ltd. for the year ended 31 March 2013.

Balance sheet as at 31 March 2013	Kshs.	Kshs.
Non-current assets		
Freehold property (NBV)		480,000
Plant and machinery (NBV)		800,000
Motor vehicles (NBV)		200,000
Furniture and fittings (NBV)		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

Authorized share capital- 800,000 @sh. 1	
Ordinary shares	<u>800,000</u>
Issued and fully paid 400,000@ sh. 1	
Ordinary shares	400,000
Capital reserve	200,000
Revenue reserve	800,000
10% sh.1 debentures	400,000

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 2013

Sales (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	<u>(107,200)</u>
Retained profit transferred to revenue reserve	<u>116,800</u>

Additional information

1. The purchases for the year were sh. 2,160,000 while the cost of sales was sh. 3,000,000.
2. The market price of ABC ltd ordinary shares as at 31 March 2013 was sh.5.
3. Closing debtors and creditors' figures may be taken as representative of average for the years.

Required

Compute the following ratios for ABC ltd.

- | | |
|---------------------------------------------|-----------|
| (i) Return on capital employed | (2 marks) |
| (ii) The profit margin | (2 marks) |
| (iii) The turnover of capital | (2 marks) |
| (iv) Current ratio | (2 marks) |
| (v) Liquid ratio | (2 marks) |
| (vi) Number of days debtors are outstanding | (2 marks) |
| (vii) Stock turnover ratio | (2 marks) |
| (viii) Dividend yield ratio | (2 marks) |
| (ix) Price earnings ratio | (2 marks) |
| (x) Interest coverage ratio | (2 marks) |

Question Five

The summarized annual financial statements in respect of Robb Ltd. for 2012 and 2013 are as follows:-

	31 st October 2013	31 October 2012
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. 1per share)	120,000	110,000
Retained profit	67,500	60,000
Creditors	10,000	12,500
Accrued expenses	7500	5,000
Provision for taxation	15,000	12,500
	220,000	200,000

Profit and loss statement for year ended 31 October 2013.

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

Required

- Prepare a cash flow statement using indirect approach (15 Marks)
- Explain the benefits of preparing cash flow statement as at the yearend (5 marks)

Question Six

Write short notes on the following accounting terminologies:

- (a) The periodicity concept (3 marks)
- (b) The duality concept (3 marks)
- (c) The business entity concept (3 marks)
- (d) The substance over form concept (3 marks)
- (e) The money measurement concept (3 marks)
- (f) The realization concept (3 marks)
- (g) Accounting policies (2 marks)