



MUEO

MOI UNIVERSITY

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

**UNIVERSITY EXAMINATIONS
2014/2015 ACADEMIC YEAR**

END OF SEMESTER I EXAMINATIONS

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

EXAM CODE:- MBA 800

COURSE TITLE:- FINANCIAL ACCOUNTING

DATE:-15TH FEBRUARY, 2015

TIME:- 9.00A.M. – 12.00NOON.

INSTRUCTION TO CANDIDATES

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COURSE CODE: MBA 800
COURSE TITLE: FINANCIAL ACCOUNTING

Instructions to candidates

- Answer Question **ONE** and any other **THREE** Questions.

QUESTION ONE

- (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)
- (c) Explain three key differences between income statement and a cash flow statement (6 marks)
- (d) What is the conceptual framework of accounting? Briefly discuss the concept of relevance and reliability in relation to content of a financial report (6 marks)

(Total 25 marks)

QUESTION TWO

- (a) Explain the causes of difference in balances between cashbook and bank statement (4 marks)
- (b) After careful examination of the statement received from the bank on 31st December 2014, it was discovered that it did not agree with the cash book balance of Shs. 145,000 for the reasons stated below.

Information appearing in the statement but not in the cash book

- (i) Bank charges shs. 1750
- (ii) Account had an erroneous debit of shs. 25,000
- (iii) Direct payments made by the bank to the insurance firm shs.30,000
- (iv) Direct receipts by the bank (dividends) shs.42,500
- (v) Refer to drawer cheques shs. 18,000

Information appearing in the cash book but not in the bank statement;

- (i) Cash received from customers and deposited shs. 170,000
- (ii) Payments to creditor shs. 230,000

Required

- (i) Update the cash book and show the correct cash book balance (6 marks)
- (ii) Prepare a bank reconciliation statement (5 marks)

QUESTION THREE

The following trial balance has been extracted from the books of Mr. Robert's wholesale business for the year ended 31 March 2014.

	Sh. 000	Sh.000
Capital		83,887
Sales		259,870
Trade creditors		19,840
Returns out		13,407
Provision for doubtful debts		512
Discounts allowed	2,306	
Discount received		1,750
Purchases	135,680	
Returns inwards	5,624	
Carriage outwards	4,562	
Drawings	18,440	
Carriage inwards	11,830	
Rent, rates and insurance	25,973	
Heating and lighting	11,010	
Postage, stationery and telephone	2,410	
Advertising	5,980	
Salaries and wages	38,521	
Bad debts	2,008	
Cash at hand	534	
Cash at bank	4,440	
Stock as at 1 April 2013	15,654	
Trade debtors	24,500	
Fixtures and fittings	120,740	
Provision for depreciation on fixtures and fittings		<u>50,946</u>
	<u>430,212</u>	<u>430,212</u>

The following additional information as at 31st March 2014 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 2014

(9 marks)

QUESTION FOUR

You have been provided with the following accounts of Maziwa Ltd for the year ended 31st march 2014.

Balance sheet as at 31 march 2014	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>	1,520,000
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
Current liabilities		
Trade creditors	238,400	
Bank overdraft	878,400	
Corporation tax	176,000	
Dividends payable	<u>107,200</u>	1,400,000
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	<u>(107,200)</u>
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 Maziwa ltd ordinary shares as at 31 March 2014 was sh.5.

Required

- (a) Compute the following ratios for Maziwa Ltd.
- Return on capital employed (2 marks)
 - The profit margin (2 marks)
 - Current ratio (2 marks)
 - Liquid ratio (2 marks)
 - Stock turnover ratio (2 marks)
 - Dividend yield ratio (2 marks)
 - Price earnings ratio. (3 marks)

QUESTION FIVE

The summarized annual financial statements in respect of Rasmus Limited for 2013 and 2014 are as follows:-

	31 st October, 2014	31 st October, 2013
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	<u>220,000</u>	<u>200,000</u>
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	7500	5,000
Provision for taxation	15,000	12,500
	<u>220,000</u>	<u>200,000</u>

Profit and loss statement for year ended 31st October 2014.

	Shs '000'
Sales from operations	240,000
Cost of sales	165,000
Gross operating profit	75,000
Operating expenses (including depreciation of sh 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)

QUESTION SIX

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

(a) Consistency concept

(3 marks)

(b) Prudence concept

(3 marks)

(c) Matching principle

(3marks)

(d) Duality concept

(3 marks)

(e) Going concern concept

(3 marks)