



GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**
FIRST SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE MASTER DEGREE OF BUSINESS MANAGEMENT

COURSE CODE: MBA 801

COURSE TITLE: FINANCIAL ACCOUNTING

EXAMINATION DURATION: 3 HOURS

DATE: 13/12/17

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has FIVE (5) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) questions from the remaining FOUR (4) questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of EIGHT (8) printed pages

please turn over



QUESTION ONE (COMPULSORY)

A friend of yours is thinking about pursuing a career in accounting and would like some views on the major differences between financial accounting and management accounting

- (a) Provide a summary that identifies the key differences between the two fields of accounting **[6 marks]**
- (b) Using examples, explain how the two fields are interdependent in light of decision making by organizational managers of today **[6 marks]**
- (c) Explain any four reasons for accounting as a practice in a business organizations **[4 marks]**
- (d) Briefly explain the four qualitative characteristics of financial accounting reporting and presentations **[4 marks]**

QUESTION TWO

The following trail balance was extracted from the books of Rob Ltd as on 31 December 2016

	Sh. 000	Sh. 000
Authorized issued and paid up share		
Capital (ordinary shares of Sh. 20 each)		25,000
Share premium account		1,070
Profit and loss account balance on 1 January 2016		7,360
Motor vehicles (Cost Sh 4.8 million)	2,880	
Freehold properties at cost	20,000	
Purchases	91,376	
Sale		118,400
Stock on 1 January 2016	10,750	
Goodwill	3,000	
Provision for bad debts, 1 January 2016		140
Bad debts	470	
Bank loan at 5% per annum		5,000
Loan interest accrued at 1 January 2016		250



Trade debtors and creditors	13,560	9,310
Rent receivable		250
Motor vehicle operating expenses	772	
general expenses	4,330	
Bank balance	2,008	
Salaries and wages	17,174	
Rates and insurance	460	
TOTAL	<u>166,780</u>	<u>166,780</u>

The following additional information is provided

1. Stock in trade on 31 December 2016 was sh 11,550,000
2. The Provision for bad debts are to be increased to Sh 300,000
3. Salaries and wages outstanding on 31 December 2016 was sh 200,000
4. Rates and insurance paid in advance on 31 December 2016 were sh 62,000
5. Provision is to be made for depreciation of motor vehicles at the rate of 20 per cent per annum on cost.
6. Assume a tax rate at 30%

Required:

- i. Trading and profit and loss account for the year ended 31 December 2016 **[12 marks]**
- ii. Balance sheet as at 31 December 2016 **[8 marks]**

QUESTION THREE

The summarized annual financial statements in respect of Rasha Limited for 2015 and 2016 are as follows: -

	31st October, 2016	31st October, 2015
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



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Cash	7,500	10,000
Total Assets	<u>220,000</u>	<u>200,000</u>

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
	<u>220,000</u>	<u>200,000</u>

Profit and loss statement for year ended 31st October 2016.

	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]
- Explain the usefulness of a cash flow statement to organization managers of today [5 marks]



QUESTION THREE

The summarized accounts of Mwangaza Ltd for the years ended 31 March 2015 and 2016 are as follows:

	2016	2015
Balance Sheet:	sh '000'	sh '000'
Investments at cost,	16,000	10,400
Land	12,600	8,800
Plant and machinery, at cost	2,200	2,000
Buildings, at cost	18,000	10,000
Stock	13,000	11,000
Debtors	10,000	8,000
Bank	200	
Total Assets	<u>71,800</u>	<u>50,400</u>
Ordinary shares sh 20 each	10,000	8,000
Share premium	2,800	2,600
Revaluation reserve	4,000	-
Profit and Loss account	5,000	5,000
10% debentures	30,000	20,000
Accumulated Depreciation:		
Plant and machinery	1,000	300
Building	2,200	2,000
Creditors	12,000	8,000
Proposed dividend	4,000	4,000
Bank	<u>800</u>	<u>500</u>
Total Capital and liabilities	<u>71,800</u>	<u>50,400</u>



Profit and loss account:

Sales	40,000	40,000
Cost of sales	(24,000)	(20,000)
Gross profit	16,000	20,000
Expenses	(12,000)	(20,000)
Net profit	4,000	8,000
Dividends	(4,000)	(4,000)
Balance brought forward	5,000	1,000
Balance carried forward	5,000	5,000

Required

(a) Calculate for Mwangaza ltd for 2015 and 2016 the following ratios:

- i. Gross profit percentage
- ii. Net profit percentage
- iii. Debtors turnover
- iv. Current ratio
- v. Quick assets (acid test) ratio
- vi. Divided cover.
- vii. Gearing ratio
- viii. Return on capital employed **[16 marks]**

(b) Using the summarized account given above and ratios you have just calculated, comment on the profitability and short term liquidity position of Mwangaza ltd **[4 marks]**

QUESTION FOUR

Mr. Xpack is a sole proprietor of a small business in Nairobi town. The following trial balance was extracted from his books at 31 March 2017.

	Sh. '000'	Sh. '000'
Capital		4,896
Freehold land and buildings (at cost)	3,600	



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Plant and machinery at cost	3,480	
Provision for depreciation – plant and machinery		1,680
Delivery vans	960	
Provision for depreciation – delivery vans		672
Loose tools at valuation on 1 April 2016	288	
Stocks 1 April 2016	2,232	
Purchases	4,440	
Loose tools purchased	192	
Sales		15,840
Wages and Salaries	5,288	
Rates and Insurance	384	
Repairs and maintenance of buildings	240	
Sales expenses including vehicle running costs	344	
Electricity and power	1,440	
Industrial training levy	72	
Administration expenses	672	
Provision for doubtful debts		240
Debtors and Creditors	1,984	1,928
Drawings	480	
Bank		864
Cash in hand	<u>24</u>	<u> </u>
	<u>26,120</u>	<u>26,120</u>



Additional information:

1. Closing stock on 31 March 2017 was Sh.2, 008,000. Loose tools at valuation Sh.384, 000.
2. Provision is to be made for the following amount owing on 31 March 2017: Electricity and power Sh.192,000.
3. Payments in advance on 31 March 2017 were as follows: Van licenses Sh.2,520 and rates Sh.13,800.
4. Depreciation on plant and machinery and delivery vans is to be provided at the rate of 20% and 25% respectively on cost at the end of the year.
5. Bad debts amounting to Sh.26,000 are to be written off and the provision for doubtful debts is to be 10% of trade debtors.

Required:

- i. Trading, profit and loss account for the year ended 31st March 2017 **[12 marks]**
- ii. Balance sheet as at that date **[8 marks]**

QUESTION FIVE

Giving examples, write short notes on the following accounting concepts:

- i. Periodicity **[3 marks]**
- ii. Marching concept **[3 marks]**
- iii. Substance over form **[4 marks]**
- iv. Materiality **[4 marks]**
- v. Realization **[3 marks]**
- vi. Going concern **[3 marks]**

