



GARISSA UNIVERSITY

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

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

COURSE CODE: MBA 801

COURSE TITLE: FINANCIAL ACCOUNTING

EXAMINATION DURATION: 3 HOURS

DATE: 11/04/18

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** 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 **NINE (9)** printed pages

please turn over



QUESTION ONE (COMPULSORY)

- a) “Financial statements are the end product of the accounting cycle. They are venues through which accountants communicate information about an accounting entity to users to assist them in the making of economic decisions”

Required

- i. Briefly explain the key processes in an accounting cycle **[5 marks]**
- ii. Differentiate between general purpose financial statements and specific purpose financial statements. Give two examples of each **[6 marks]**
- b) Mary is trying to decide how to invest her money. A friend recommended that she buys the shares of two firms and suggested that she should compare the financial statements of the two firms before making a decision

Required

Do you agree that Mary will be able to compare the financial statements of the two companies?

Explain **[5 marks]**

- c) Explain reliability and relevance as the primary qualitative characteristic of financial statements **[4 marks]**

QUESTION TWO

The following is the trial balance as at 31st December 2017 extracted from the books of Ramadhan, who carries on the business under the name Ramadhan Grocers?

	Kshs	kshs
Cash in hand	14,000	
Cash at bank	26,000	
Accounts receivable	860,000	
Inventory(1.1.2017)	620,000	
Furniture and fixtures	214,000	
Office equipment	160,000	
Buildings	600,000	



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Motor vehicle	200,000	
Accounts payable		430,000
Loan from shawwal		300,000
Purchases	1,400,000	
Purchase returns		42,000
Sales		2,300,000
Sales returns	66,000	
Salaries	110,000	
Rent	55,000	
Interest on loan from shawwal	27,000	
Rates and taxes	21,000	
Freight charges	12,000	
Carriage outwards	20,000	
Drawings	120,000	
Printing and stationary	18,000	
Electricity expenses	22,000	
Insurance premium	55,000	
General office expenses	30,000	
Bad debts	20,000	
Bank charges	16,000	
Motor vehicle expenses	36,000	
Capital	<u> </u>	<u>1,650,000</u>
	<u>4,722,000</u>	<u>4,722,000</u>

Additional information

1. Depreciation is to be provided as follows;
 - a) Buildings by 5%
 - b) Furniture and fixtures by 10%, one steel table purchased during the year or kshs 14,000 was sold for the same price but the sale proceeds were wrongly credited to sales account



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- c) Office equipment by 15% (purchase of a type writer of kshs 40,000 has been wrongly debited to purchases)
- d) Motor vehicle by 20%
2. Inventory as at the close of the year was kshs 440,000
3. Rent and salaries for the month of December are outstanding
4. Interest on loan from shawwal is payable at 12% p.a. This loan was taken on 1st June 2017
5. Insurance premium includes kshs 40,000 paid towards Ramadhan life cover
6. Half of the buildings are used for residential purposes of Ramadhan
7. A provision for doubtful debts is to be made at 5% of sundry debtors

Required

- i. Income statement of Ramadhan for the year ended 31st December 2017 [12 marks]
- ii. Balance sheet as at 31st December 2017 [8 marks]

QUESTION THREE

Bustani Limited is a manufacturer of gardening tools. Presented below is an unadjusted trial balance extracted from the books of the company as at 30th June 2017;

	DR	CR
	Kshs, 000	kshs, 000
Sales		3,815,900
Cost of sales	1,985,789	
Selling and distribution costs	140,000	
Administrative expenses	699,269	
Accounts receivable	529,531	
Accounts payable		201,142
Allowances for uncollectable debts		23,610
Salaries and wages	551,500	
Debenture interest paid	7,500	



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Building at cost	700,000	
Plant and machinery at cost	185,000	
Accumulated depreciation on motor vehicles		
And machinery as at July 1 2016		65,000
Motor vehicle at cost	64,000	
Accumulated depreciation on motor vehicles		
As at July 1, 2016		34,000
Inventory as at 30 th June 2017	291,628	
Trade investment at cost	82,000	
Bank overdraft		275,362
Ordinary share capital of kshs 50 each		300,000
10% debentures		<u>150,000</u>
	<u>5,236,217</u>	<u>5,236,217</u>

The following information is also related to the accounts for the year to 30th June 2017;

- a. The allowance for uncollectible debts is to be increased to an amount which is equal to 2% of the turnover for the year.
- b. Accrued salaries and wages of kshs 40,000,000 are outstanding. 60% of salaries and wages relate to administrative expenses while 40% relates to selling and distribution expenses.
- c. Depreciation is to be provided for the year as follows;

Building	2%
Plant and machinery	10%
Motor vehicles	25% on written down value basis

Depreciation on motor vehicles is part of selling and distribution cost while depreciation relating to other items of property, plant and equipment are included with other administrative expenses.
- d. A provision of kshs 160,000,000 is to be made for corporation tax at 33% based upon the profits for the year. This would be payable on 30th September 2017.
- e. The directors have proposed a dividend of kshs6.50 share on ordinary share capital.
- f. The authorized ordinary share capital is 6,000,000 of kshs 50 shares. All shares in issue are fully paid.
- g. Administrative expenses include kshs 4,134,000 interest on the overdraft.



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h. Debentures were issued on 1st January 2017

i. Investment income this year was kshs 7,000,000 and has been credited to sales in error.

Required

i. Prepare the income statement and statement of changes in equity of Bustani Limited for the period ended 30th June 2017 **[12 marks]**

ii. Prepare the balance sheet of Bustani Limited as at 30th June 2017 **[8 marks]**

QUESTION FOUR

The summarized annual financial statements in respect of Roberts Ltd. For years 2016 and 2017 are as follows:-

	31st October 2017	31 October 2016
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. 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 31 October 2017.

	Shs '000'
Sales from operations	240,000



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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 year-end [5 marks]

QUESTION FIVE

You have been provided with the following accounts of Maziwa Ltd for the year ended 31st march 2017.

Balance sheet as at 31 march 2017	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



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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>	<u>1,400,000</u>
Total capital and liabilities		<u>3,200,000</u>

Profit and loss account for the year ended 31 March 2017

		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

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 Maziwa ltd ordinary shares as at 31 March 2017 was sh.5.



Required

- (a) Compute the following ratios for Maziwa 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 [2 marks]
 - vi. Dividend yield ratio [2 marks]
 - vii. Price earnings ratio [3 marks]
- (b) Explain the benefits of using ratios for interpretation of financial statements [5 marks]

QUESTION SIX

Giving examples, write short notes on each of 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]

