



# TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

**UNIVERSITY EXAMINATION FOR:**

**Bachelor of Technology in Applied Physics,  
Bachelor of Technology in Renewable Energy,  
Bachelor of Statistics and Computer Science,  
Bachelor of Mathematics and Computer Science,**

**UNIT CODE:** BAC 4350

**UNIT NAME :** ACCOUNTS & FINANCE

**SPECIAL SUPPLEMENTARY EXAMINATION**

**SERIES:** SEPT. 2017

**TIME:** 2 HOURS

**DATE:** SEPT. 2017

**Instructions to Candidates**

You should have the following for this examination

*-Answer Booklet, examination pass and student ID*

This paper consists of FIVE (5) questions. Attempt Question One (1) Compulsory and **Any** other Two (2)

**Do not write on the question paper.**

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## Question ONE

- a) Define the following terminologies (10Mks)
1. Equity
  2. Accounting
  3. Ratios
  4. Capitalization
  5. Capital budgeting
- b) A company is earning a sum of Rs. 50,000 and the rate of return expected is 10%. This company will be said to be properly capitalized. Suppose the capital investment of the company is Rs. 60,000, it will be over capitalization to the extent of Rs. 1,00,000. Compute the new rate of earning (3Mks)
- c) Briefly discuss any three (3) Accounting Principles (6Mks)
- d) List 5 qualities of good accounting information and highlight the users of Accounting informations. (10Mks)
- e) Define retained earnings. Evaluate the advantages and disadvantages of retained earnings. (5Mks)

## Question TWO

- a) Mr. Tamaa started a business on 1st January 2015. During the first month of trading the following transactions took place.
1. Wrote a personal cheque and deposited into the business bank account Sh800,000
  2. Withdrew Sh200, 000 from the bank and put it into the cash till.
  3. 2nd Jan, Purchased goods by cheque Sh70,000
  4. 3rd Jan, Bought furniture for cash Sh25,000
  5. 3rd Jan, Bought equipment on credit Sh75,000
  6. 4th Jan, Sold goods for cash Sh100,000
  7. 5th Jan, Bought goods and paid by cheque Sh.200,000
  8. 6th Jan, Bought a motor van paying by cheque Sh.210,000
  9. 10th Jan, Obtain loan from the bank Sh.500,000
  10. 12th Jan, Sold goods on credit Sh75,000
  11. 16th Jan, Sold goods payment made by cheque Sh.100,000
  12. 16th Jan, Received a cheque from a debtor Sh.60,000
  13. 30th Jan, Took Sh10,000 from the cash till personal use.
- Using the given details write up a two column cash book for Mr. Tamaa for the month of January 2015
- b) Highlight the advantages of equity financing accruing to shareholders.

### Question THREE

- a) i. Briefly discuss the merits and demerits of payback period as a method of capital budgeting. (7Mks)
- ii. Project cost is Rs. 30,000 and the cash inflows are Rs. 10,000, the life of the project is 5 years. Calculate the pay-back period. (3 Mks)
- b) The following are the cash inflows and outflows of a certain project.

Year	Outflows	Inflows
0	1,75,000	-
1	5,50,000	35,000
2		45,000
3		65,000
4		85,000
5		50,000

The salvage value at the end of 5 years is Rs. 50,000. Taking the cutoff rate as 10%, calculate net present value.

Year	1	2	3	4	5
P.V.	0.909	0.826	0.751	0.683	0.621

(10Mks)

### Question FOUR

Mr. Hassan Baraka retired from employment on 1 October 2005 and was paid terminal benefits of Sh 3,000,000 He utilized Sh 2,500,000 in purchasing business premises and deposited the balance in a new business account at Faida Bank Ltd.” Mr. Baraka did not maintain proper books of account. However, he kept files of statements from suppliers, cheque counter foils and unpaid invoices for purchases made. He also maintained a note book in which he recorded sales to customers who had credit accounts and settled their accounts by cheque. Cash collected from sales was banked at the end of each week after payment of certain expenses. Mr. Baraka also maintained some petty cash for office use. Mr. Baraka estimates to have paid the following business expenses from his personal bank account

Rent and rates for additional space	100
Lighting expenses	50

An analysis of the bank statements for the year ended 30 September 2006 was as follows:

Receipts	Sh.'000'	Payments	Sh.'000'
Account opening	500	Petty cash withdrawn	20
Weekly bankings	3,769	Fixtures and fittings	300
Cheques from customers	382	Suppliers for goods	3,728
Cash refunded by a supplier	10	Insurance for inventory	40
Bank charges	<u>110</u>		
Balance carried down	<u>463</u>		
	<u>4,661</u>		<u>4,661</u>

**Additional information:**

1. Baraka estimates that during the year ended 30 September 2006, he utilized cash collected from sales for the following purposes: Sh.'000' Wages payment 400 Sundry expenses payment 50 Drawings 600

2 Cheques received from credit customers amounting to Sh 30, 000 had not been credited by the bank as at 30 September 2006.

3 Insurance paid for inventory during the year includes Sh 20,000 relating to premium for the year ending 30 September 2007.

4 Petty cash balance as at 30 September 2006 was Sh 15,000 which included a post dated cheque of Sh 5,000 drawn by Mr. Baraka's friend in exchange for cash advanced from petty cash.

5 Credit customers owed Sh 172,000 as at 30 September 2006.

6 As at 30 September 2006, the following were due on accounts payable:

Sh '000'

Suppliers 403 Wages 10 Sundry expenses 67

Depreciation is to be provided on a straight-line basis at the following rates: Business premises 2% Fixtures and fittings 10% 8 The value of inventory as at 30 September 2006 was Sh 360,000.

**Required:**

(a) Statement of comprehensive income for the year ended 30 September 2006. (12 Marks)

(b) Statement of financial position as at 30 September 2006. (8 Marks)

### **Question FIVE**

1. Discuss why it may be difficult for small companies to raise debt finance in Kenya say Jua Kali Companies **(10 Mks)**
  
2. Write notes on the below ratios; **(10 Mks)**
  - a) Liquidity ratios. b) Leverage or gearing ratios. c) Activity ratios. d) Profitability ratios.