



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN MASTERS OF BUSINESS ADMINISTRATION

BFI 5101: FINANCIAL ACCOUNTING SPECIAL SUPPLEMENTARY EXAMINATIONS

SERIES: SEPT. 2017

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of section A and B
- Section A is Compulsory. Answer any Three questions in section B
- Mobile phones are not allowed into the examination room
- Cheating leads to disqualification

SECTION A (40MARKS)

QUESTION ONE (20MARKS)

- a) Giving appropriate examples where relevant, distinguish between accounting assumptions, principles and constraints. (10marks)
- b) Presented below are a number of business transactions and events that have occurred during the current period of Mshawishi Ltd.
 - i) The enterprise decided that for the sake of conciseness, only net income should be reported in the income statement. Details as to revenues cost of sales and expenses were omitted.
 - ii) The company decided in September of the current financial period to start a massive advertisement campaign to enhance the marketability of their product. On 1st October, the company paid Shs. 1,200,000 for advertising time on a major television network to advertise for the next 12 months. The financial year of Mshawishi Enterprise ends on 31st December. The finance manager decided to expense the whole amount in the current financial period on the basis that once money has been paid, it cannot be recovered from the television network.

- iii) Because of a “fire sale”, equipment obviously worth Sh.190, 000 was acquired at a cost of sh.140, 000. The following entry was made:

Equipment	190,000	
Cash		140,000
Income		50,000

- iv) The Director of Mshawishi Ltd used his expense account to purchase a new lawn mower solely for use at his Nyali private residence. The following entry was made:

Miscellaneous expense	35,000	
Cash		35,000

- v) Because the general level of prices increased during the current year, Mshawishi Ltd. determined that there was a Sh.14, 000 understatement of depreciated expense on its equipment and decided to record it in its accounts. The following entry was made:

Depreciation expense	14,000	
Accumulated depreciation		14,000

Required:

In each of the situations above, discuss the appropriateness of the treatment accorded. (10 marks)

- c) The following trial balance has been extracted from the ledger of Mwamzadi, a sole trader as at 31ST May 2012, the end of his financial year.

MWAMZADI

Trial balance as at 31st May 2012

	DR	CR.
	SH. "000"	SH. "000"
Property at cost	90,000	
Equipment at cost	57,500	
Provision for depreciation (as at 1 st June 2011):		
Property		12,500
Equipment		32,500
Stock as at 1 st June 2011	27,400	
Purchases	259,600	
Sales	405,000	
Discount allowed	3,370	
Discount Received		4,420
Wages and salaries	52,360	
Bad debts	1,720	
Loan interest	1,560	
Carriage outward	5,310	
Other operating expenses	38,800	
Trade debtors	46,200	
Trade creditors		33,600
Provision for bad debts		280
Cash on hand	151	
Bank overdraft		14,500
Drawings	28,930	
13% loan		12,000
Capital as at 1 st June 201	<u> </u>	<u>98,101</u>
	<u>612,901</u>	<u>612,901</u>

Additional information as at May 31st 2012

- i) Stock at close of business was valued at sh. 25,900,000.
- ii) Depreciation for the year ended 31st May 2012 has yet to be provided as follows:
Property - 1% using the straight line method
Equipment – 15% using the straight line method
- iii) Wages and salaries are accrued by sh. 140,000.
- iv) Other operating expenses include certain expenses prepaid by sh.500, 000.
Other expenses included under this heading are accrued by sh. 200,000
- v) The provision for bad debts is to be adjusted so as that it is 0.5% of trade debtors as at 31 May 2012
- vi) Purchases include goods valued at sh. 1,040,000 which were withdrawn by Mr. Mwamzadi for his own personal use.

Required:

Prepare Mr. Mwamzadi's income statement for the year ended 31st May, 2012 and his balance sheet as at that date. (20marks)

SECTION B (60MARKS)

QUESTION TWO (20MARKS)

The question that has been extensively debated is whether or not the accounting profession should be regulated. It has been argued by the proponents for an unregulated accounting profession that accounting entities have certain incentives that force them to report to interested parties without necessarily making them to do so through regulation.

Required

- a) Identify and discuss the arguments in support for an unregulated accounting profession. (10marks)

Accounting standards are methods of or approaches to preparing accounts, which have been chosen and established by the bodies overseeing the accounting profession. They are essentially working rules established to guide accounting practice.

Required:

- b) Discuss the role of accounting standards in guiding accounting practice. (10marks)

QUESTION THREE (20MARKS)

Beta Ltd. is reviewing the financial statements of two companies: Zeta Ltd. and Omega Ltd. The companies trade as wholesalers, selling electrical goods to retailers on credit. Their most recent financial statement appears below.

Profit and loss accounts for the year ended **31 March 2014**

	Zeta Ltd.		Omega Ltd.	
	Sh. '000'	Sh.'000'	Sh.'000'	Sh.'000'
Sales		4,000		6,000
Cost of sales:				
Opening stock	200		800	
Purchases	<u>3,200</u>		<u>4,800</u>	
	3,400		5,600	
Less closing stock	<u>400</u>		<u>800</u>	
		<u>3,000</u>		<u>4,800</u>
Gross profit		1,000		1,200
Expenses:				
Distribution costs	200		150	
Administrative exp.	290		250	
Interest paid	<u>10</u>	<u>500</u>	<u>400</u>	<u>800</u>
Profit before tax		500		400
Taxation		<u>120</u>		<u>90</u>
Net profit for period		<u>380</u>		<u>310</u>

Balance Sheet as at **31st March 2014**

	Zeta Ltd.		Omega Ltd.	
	Sh. '000'	Sh.'000'	Sh.'000'	Sh.'000'
Non- current assets:				
Warehouse and office buildings	1,200		5,000	
Equipment and vehicles	600		1,000	
Current assets:	1,800		6,000	
Stock	400		800	
Trade debtors	800		900	
Sundry	150		80	
Cash at Bank	-----		100	
	<u>1,350</u>		<u>1,180</u>	
Current Liabilities:				
Creditors- Trade	(800)		(800)	
Sundry	(80)		(100)	
Overdraft	(200)		-	
Taxation	<u>(120)</u>		<u>(90)</u>	
		<u>150</u>		<u>890</u>
		<u>1,950</u>		<u>6,890</u>

Required:

- Calculate for each company a total of eight ratios which will assist in measuring the three aspects of profitability, liquidity and management of the elements of working capital. Show all workings. (8marks)
- Based on the ratios you have calculated in (a) above, compare the two companies as regards their profitability, liquidity and working capital management. (8marks)
- Explain the limitations of ratio analysis. (4marks)

QUESTION FOUR (20MARKS)

Provided below are the income statement and balance sheets of High rise Ltd. for the financial year ended 31 December 2015.

Highrise

Income statement for the year ended 31 December 2015.

	Sh. '000'	sh.'000'
Gross profit		44,700
Add: Discounts received	410	
Profit on sale of van	620	<u>1,030</u>
		45,730
Less expense:		
Motor expenses	1,940	
Wages	17,200	
General expenses	830	
Bad debts	520	
Increase in allowance for doubtful debts	200	
Depreciation: van	<u>1,800</u>	<u>22,490</u>
		<u>23,240</u>

Balance sheet as at **31 December**

		2014		2015
	Sh.'000'	sh.'000'	sh.'000'	sh.'000'
Non- current assets				
Vans at cost		15,400		8,200
Less; Depreciation to date		<u>(5,300)</u>		<u>(3,100)</u>
		10,000		5,100
Current assets:				
Inventory	18,600		24,000	
Accounts receivable/less allowance	8,200		6,900	
Bank	<u>410</u>	<u>27,210</u>	<u>720</u>	<u>31,620</u>
		37,310		36,720
Current Liabilities:				
Accounts payables	5,900		7,200	
Non –current liability:				
Loan from J. Fry	<u>10,000</u>		<u>7,500</u>	
Total liabilities:		<u>(15, 900)</u>		<u>(14,700)</u>
Net Assets		<u>21,410</u>		<u>22,020</u>
Capital				
Opening balance b/d		17,210		21,410
Add net profit		<u>21,200</u>		<u>23,240</u>
		38,410		44,650
Less Drawings		<u>(17,000)</u>		<u>(22, 630)</u>
		<u>21, 410</u>		<u>22, 020</u>

NB: A van was sold for sh. 3,820,000 during 2015

No new vans were purchased during the year.

Required:

Cash flow statement in conformity with IAS 7, for the year ended 31 October 2006 using the indirect method of presentation. (20marks)

QUESTION FIVE (20MARKS)

After having attended the first few semesters in MBA, two students, Mjuaji and Mshindani were discussing the various aspects of the conceptual framework. In their discussion they touched on objectives of financial reporting and the “how” of the conceptual framework. Mjuaji further indicated that accounting is more of a practical discipline than a theoretical one. Mshindani conceded but argued that there is need to for a theoretical framework to guide the practice. Mjuaji further argued that using such a framework does not provide obvious solutions to accounting problems; rather it simply identifies and defines aspects that should be considered when reaching a solution. Indeed, many accounting choices require trade- off between the qualitative characteristics.

Required:

- i) Identify the basic objectives of financial accounting, as per the conceptual framework that the two students discussed. (4marks)
- ii) What do you think is the meaning of the second student's statement that there is need for a theoretical framework to guide practice in the accounting profession. (8marks)
- iii) What are some of the factors that have become an impediment to the development of a universally accepted conceptual framework in the accounting profession? (8marks)