



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

MBA

BAC 5101: FINANCIAL ACCOUNTING

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2019

TIME: 3 HOURS

DATE: AUGUST, 2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE questions. Question One is Compulsory. Answer any other THREE questions.

Do not write on the question paper

SECTION A (40MARKS)

QUESTION ONE

- a) The transactions summarized below were recorded as indicated for Wajengaji limited during the current year.
- i) Wajengaji limited needed a small structure for temporary storage. A contractor quoted a price of shs.837, 000, but the company decided to build itself. The cost was sh.643, 000 and construction required three months. The following entry was made.
- | | |
|--------------------|--------------|
| Building warehouse | shs.837, 000 |
| Cash | shs.643, 000 |
| Revenue | shs.194, 000 |
- ii) Wajengaji limited owns a plant located on a river that floods every few years. As a result, the company suffers a flood loss regularly. During the current year, the flood was severe, causing an un-insured loss of sh. 1750,000 which was the amount spent to repair the flood damage. The company charged the amount to retained earnings.
- iii) Wajengaji limited reported accounts receivable of shs. 9,500,000 on the balance sheet; the amount included a sh. 4,200,000 loan to the managing director of the company.

- iv) Usual and ordinary repairs on operational assets were recorded as follows: debit operational assets sh. 975,000, credit cash sh. 975,000.

Required

For each case, explain the nature of any incorrect accounting and propose the correct treatment. Make reference to the conceptual framework. (8 marks)

- b) Mr. Kazungu has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30th April 2012, the end of his most recent financial year.

	Sh. "000"
Capital	83,887
Sales	259,870
Trade accounts payable	19,840
Return outwards	13,407
Allowances for doubtful debts	512
Discount allowed	2,306
Discount received	1,750
Purchases	135,680
Return inwards	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Drawings	25,973
Carriage inwards	11,010
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertisement	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440
Inventory as at 1 st May 2011	15,654
Trade accounts receivable	24,500
Furniture and fittings-at cost	120,740
Provision for depreciation on fixture and fittings-as at 30 th April 2012	63,020
Depreciation	12,074

Additional information:

- Inventory at the close of business was valued at shs. 17,750,000.
- Insurance has been prepaid by sh. 1,120,000.
- Heating and lighting is accrued by shs. 1,360,000.
- Rates have been prepaid by sh. 5,435,000.

- e) The allowance for doubtful debts is to be adjusted so that it is 3% of trade accounts receivable.

Required;

Prepare Mr. Kazungu's income statement for the year ending 30th April 2012 and a balance sheet as at date. (22marks)

- c) "In practice the regulation of any field leads to misallocation of resources because production is not geared towards the market forces of demand and supply. The accounting profession is no exception."

Required;

Discuss the problems facing the accounting profession as a result of regulation. (10marks)

SECTION B (60MARKS)

Question Two

Vipingo Ltd presented the following financial statements on 30th June 2009.

Income statement for the year ended 30th June.

	2008		2009	
	Sh.	Sh.	Sh.	Sh.
Sales		555,000		750,000
Less cost of goods sold				
Opening inventory	100,000		80,000	
Add purchases	200,000		320,000	
	300,000		400,000	
Less closing inventory	<u>(60,000)</u>	<u>(240,000)</u>	<u>(70,000)</u>	<u>(330,000)</u>
Gross profit		315,000		420,000
Less depreciation	5,000		15,000	
Wages and salaries commission	165,000		220,000	
Other expenses	<u>45,000</u>	<u>(215,000)</u>	<u>35,000</u>	<u>(270,000)</u>
		<u>100,000</u>		<u>150,000</u>

Balance sheets

	2008		2009	
	Sh.	Sh.	Sh.	Sh.
Non-current assets				
Equipment at cost	50,000		100,000	
Less depreciation to date	<u>(40,000)</u>	10,000	<u>(30,000)</u>	70,000
Current assets				

Inventory	60,000		70,000	
Accounts receivable	125,000		100,000	
bank	<u>25,000</u>	<u>210,000</u>	<u>12,500</u>	<u>182,500</u>
Total assets		220,000		252,500
Current liabilities				
Accounts payable		<u>(104,000)</u>		<u>100,500</u>
Net assets		<u>116,000</u>		<u>152,000</u>

Financed by

Capitals		
Balance at start of year	76,000	72,000
Add net profit	<u>100,000</u>	<u>150,000</u>
	176,000	222,000
Less drawings	<u>(60,000)</u>	<u>(70,000)</u>
Total capital	116,000	152,000

Required;

Compute the following ratios for Vipingo limited for each year.

- i. Current ratio (2marks)
- ii. Inventory turnover (2marks)
- iii. Acid test ratio (3marks)
- iv. Return on capital employed (2marks)
- v. Accounts receivable/sales ratio (2marks)
- vi. Accounts payable/purchases ratio (2marks)
- vii. Gross profit margin (2marks)

b) Discuss the importance of ratio analysis. (5marks)

Question Three

- a) "Accounting standards are basically working rules that guide accounts in the preparation and presentation of financial statements and reports."

Required:

Discuss the extent to which accounting standards have improved the usefulness of accounting information. (15marks)

- b) Explain accrual accounting model. How does it add to the usefulness of financial statements? (5marks)

Question Four

Give below is the income statement and balance sheet for XYZ Ltd Co. as at 31st December 2009.

XYZ Ltd

Income statement for the year ending 31st December 2009

	Shs. '000	Shs. '000
Gross profit		44,700
Add discounts received	410	
Profit on sale of van	<u>620</u>	<u>1030</u>
		45730
Less expenses		
Motor expenses	1940	
Wages	17200	
General expenses	830	
Bad debts	520	
Increase in allowances for Doubtful debts	200	
Depreciation van	<u>1800</u>	<u>22490</u>
		<u>23240</u>

Balance sheets as at 31st December

	2008		2009	
	Shs.	Shs.	Shs.	Shs.
Non-current assets				
Van at cost		15,400		8,200
Less depreciation		<u>(5,300)</u>		<u>(3,100)</u>
		10,100		5,100
Current assets				
Inventory	18,600		2,400	
Accounts receivable	8,200		6,900	
(Less allowance)				
Bank	<u>410</u>	<u>27,210</u>	<u>720</u>	<u>31,620</u>
Total assets		37,310		36,720
Current liabilities				
Accounts payable	5900		7200	
Non-current liability				
Loan from J fry	<u>10,000</u>		7,500	
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	17,000	22,630
Total capital	<u>21,410</u>	<u>22,020</u>

Required:

Prepare a cashflow statement using the IAS7 format. (20 marks)

Question Five

- a) Differentiate between trend analysis and cross sectional analysis as techniques for analyzing financial statements. (4marks)
- b) The current ratio of a company is 2:1. State giving reasons, which of the following transactions would improve, reduce or not alter the current ratio (10marks)
 - i) Payment of accounts payables
 - ii) Purchase of merchandise on credit
 - iii) Sale of office equipment at a loss
 - iv) Sale of merchandise at a profit
 - v) Payment of interim dividends.
- c) The debt –equity ratio of a company is 1:2. Which of the following proposals would increase, decrease and not change it? (6marks)
 - i) Issue of equity shares
 - ii) Cash received from debtors
 - iii) Redemption of debentures
 - iv) Issuing of corporate bonds.