



**TECHNICAL UNIVERSITY OF MOMBASA**  
*Faculty of Engineering & Technology*

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF SCIENCE IN ELECTRICAL AND ELECTRONIC ENGINEERING  
(AUG. 2010 JFT & JAN 2010 SEV)

**HRD 2115: ACCOUNTING AND FINANCE**

SUPPLEMENTARY/SPECIAL EXAMINATIONS

**SERIES:** JULY 2014

**TIME:** 2 HOURS

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Four printed pages***

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**QUESTION 1 (Compulsory)**

- a) i) What is the purpose of Accounting?  
ii) The accounting process is grouped into two categories. Recording business transactions and reporting financial information. What are the 10 steps in these two categories?  
iii) You are the accountant for a medium sized organization which is going to install a new receivable ledger computer system for its customers records.

State **FOUR** documents/reports that the accountants would enquire as an output for the new system. Explaining why you would need each document or report.

- b) i) List the **FOUR** functions and advantages of using a journal.

ii) Journalize the following transaction appearing in the books of Shankar and Company.

2014

- February 1<sup>st</sup> Purchase goods worth Ksh. 3,000 for Vimal and Ksh. 5,000 from Kamau on Credit  
 3<sup>rd</sup> Sale of goods worth Ksh. 10,000 Bar ram and 7,000 to Dhanram  
 5<sup>th</sup> Cash of Ksh. 9,000 received from Ramasamy and Ksh. 8,000 Krishnasmy  
 7<sup>th</sup> Paid Ksh. 8,000 to Pradeep and Ksh. 5,000 to Kuldeep  
 8<sup>th</sup> Withdrawn from bank Ksh. 6,000 for office use and Ksh. 3,000 for personal use

c) Consider the following financial statements for lake Egypt Manna Inc.

**LAKE OF EGYPT MARINA INC.  
 BALANCE SHEET AS OF DECEMBER 2012, 2013  
 (IN MILLIONS OF SHILLINGS)**

<b>Assets</b>	<b>2012</b>	<b>2013</b>	<b>Liabilities &amp; Equity</b>	<b>2012</b>	<b>2013</b>
Current Assets			Current liabilities		
Cash and Marketable securities	65	75	Accrued wages & Tax	43	40
Accounts receivable	110	115	Accounts payable	80	90
Inventory	<u>190</u>	<u>200</u>	Notes payable	<u>70</u>	<u>80</u>
Total	365	390	Total	193	210
Fixed Assets			Long Term Debt	280	300
Gross Plant and Equipment	471	580	Stockholders equity		
Less depreciation	<u>100</u>	<u>110</u>	Preferred stock		
Net Plant Equipment	371	470	(5mil shoes)	5	5
Other Long Term Assets	<u>49</u>	<u>50</u>	Common stock and paid		
Total	420	520	In surplus (65 mil/shares)	65	65
Total Assets	<u>785</u>	<u>910</u>	Retained Earnings	<u>242</u>	<u>330</u>
			Total	312	400
			Total Liabilities & Equity		
				<u>785</u>	<u>910</u>
				2012	2013
Net sales (all credit)				432	515
Less: cost of goods sold				<u>200</u>	<u>260</u>
Gross Profit				232	255
Less depreciation				<u>20</u>	<u>22</u>
Earnings before interest and Taxes (EBIT)				212	233
Less interest				<u>30</u>	<u>33</u>
Earnings before taxes (EBT)				182	200
Less : Taxes				<u>55</u>	<u>57</u>
Net income				127	143
Less: Preferred stock dividends				<u>5</u>	<u>5</u>
Net income available to common Stockholders				122	138
Less: Common stock dividends				<u>65</u>	<u>65</u>

- i) Calculate the following ratios for Lake of Egypt Marina for 2012 and 2013 current ratio, quick ratio, inventory turnover, ratio profit margin, ROA and ROE.
- ii) Lake of Egypt Marina, share data

	2012	2013
Market value per share	12.550	14.750
Earnings per share	1.877	2.2123
Book value per share	4.723	6.079

Find the P.E ratio and market to book ratio for 2012 and 2013.

**(10 marks)**

### QUESTION 2

- a) i) Explain the use of the price-earning ratio for valuing a stock. **(5 marks)**  
 ii) Why might investors derive different varieties for a stock when using the free-earning ratio. **(5 marks)**
- b) i) Describe the value-at-risk method for measuring risk. **(6 marks)**  
 ii) Suppose you are interested in buying the stock of a company that has a policy of paying a Ksh. 60.00 per share dividend every year. Asking no changes in the firms policy. What is the value of a share of stock of the required rate of return is 11%. **(2 marks)**
- iii) Micro Inc will pay a dividend of Ksh. 23.00 per share next year. If the company plan to increase its dividends by 9% per year indefinitely and you require a 12% return on your investment. What should you pay for your company stock? **(2 marks)**

### QUESTION 3

- a) i) The decision to start your own firm and go ahead into business can be thought of as a capital budgeting decision. You only go ahead if projected returns look attractive on a personal and financial basis. Discuss this statement.  
 ii) What major steps are involved in the capital budgeting process? **(10 marks)**
- b) Mashali Company has Ksh. 150,000 to invest. Management is trying to decide between two alternative uses for the fund flow as follows. The company's discount rate is 16%.

**Project A**

**Project B**

Investment required	150,000	150,000
Single cash inflow at the end of 10 yrs	0	600,000
Annual cash inflows	40,000	0
Life of the project	10 yrs	10 yrs

Given the above information which alternative could the company choose. **(10 marks)**

#### QUESTION 4

- a) i) What is meant by fund flow statements? **(5 marks)**  
 ii) What are the limitations of fund flow statements?  
 iii) Mention the steps involved in preparing the fund flow statement. **(5 marks)**
- b) i) What are the main sources of Business Finance? **(5 marks)**  
 ii) To avoid the problem of shortage and surplus of funds, what is required in financial management?  
 Name and explain the **FOUR** points of importance. **(5 marks)**

#### QUESTION 5

- a) i) What is meant by working capital? How is it calculated? **(5 marks)**  
 ii) Discuss how working capital affects both the liquidity and profitability of a business. **(5 marks)**
- b) Every manager has three major decisions while performing the finance function. Briefly explain them. **(10 marks)**