



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN

MASTERS OF SCIENCE IN HUMAN RESOURCES MANAGEMENT

MASTERS IN BUSINESS ADMINISTRATION

BFI 5105: FINANCIAL ACCOUNTING AND MANAGEMENT

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: MARCH 2025

TIME: 3 HOURS

INSTRUCTIONS:

Answer Question **ONE (Compulsory)** and any other **Three** questions

This paper consists of Four printed pages

QUESTION ONE (Compulsory)

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 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:

- a) Identify the basic objectives of financial accounting, as per the conceptual framework that the two students discussed (5 Marks)
- b) 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 (15 Marks)
- c) What are some of the factors that have become an impediment to the development of a universally accepted conceptual framework in the accounting profession?

(10

Marks)

d) Describe the modern view of accounting

(10 Marks)

QUESTION TWO

Moran Company Ltd purchased a packing machine 3 years ago at a cost of Sh.4.5 million. The machine had a life of 8 years at the time of purchase. The company is considering replacing it with a new packing machine costing Sh.6 million with an expected useful life of 5 years. Due to increased efficiency, the sales are expected to increase by Sh.850,000 a year, the labor costs would decrease by Sh.420,000 per year while the maintenance costs would increase at the following rate:

Year	Maintenance Costs
1	50,000
2	110,000
3	135,000
4	145,000
5	168,000

The salvage value of the new packing machine is estimated at Sh.690,000. The market value of the old machine, today, is Sh.3.5 million. It is estimated to have a zero-salvage value after 5 years. The company's tax is 30% and the after-tax cost of capital is 12%.

Required

a) Explain any three non-financial methods used for appraising the projects

(6

marks)

b) Moran Company Ltd prefers NPV approach in appraising their projects. Advise Moran Ltd on whether the new grinder should be bought. (14 marks)

QUESTION THREE

a) Rama company issues 120000 10% debentures of Ksh. 10 each at a premium of 10%. The costs of floatation are 4%. The rate of tax applicable to the company is 30%. Complete the cost of debt capital. (5 Marks)

b) Using formulars as basis of your argument, explain any three approaches that can be applied in estimating the cost of equity for a manufacturing company (15 Marks)

QUESTION FOUR

The following is a trial balance extracted from the books of Meadow Windfalls Ltd during the year 2022.

Meadow Windfalls Ltd
Trial Balance as at 31st December 2022

	Dr	Cr
Freehold land at cost/valuation	11,300,000	
Freehold Buildings	5,000,000	
Provision for Depreciation on Buildings		200,000
Machinery	3,200,000	
provision for Depreciation on Machinery		930,000
Investments	1,300,000	
Inventories as at 1.1.2012	980,000	
Accounts receivable	2,100,000	
Provision for doubtful debts		32,000
Turnover		25,128,000
Purchases	14,120,000	
Bad Debts w/o	55,000	
Salaries	3,500,000	
Rent	2,700,000	
Transport	1,585,000	
Repairs & Maintenance	732,000	
Printing & Stationery	368,000	
Sale of Investments		800,000
Bank and cash balance	550,000	
Preference Shares @ Kes 20		5,200,000
Ordinary Shares @ Kes 20		8,000,000
Share premium		500,000
Revaluation reserve		370,000
Retained earnings		3,330,000
12% debentures		1,500,000
Corporation tax		500,000
Accounts payable		1,000,000
	47,490,000	47,490,000

Additional information:

- a) Inventories as at 31st December 2022 were valued at Ksh 1,200,000.
- b) It is the company's policy to depreciate buildings at the rate of 2.5% on reducing Balance while Machinery is depreciated at 10% using straight-line method
- c) Half of the investments were disposed during the year at Ksh 800,000 and no entries were made in the books in that regard.
- d) Provision for bad debts is maintained at 1% of the accounts receivable
- e) The company has 10 employees whose monthly average salary is Ksh 50,000
- f) Accrued repairs and maintenance was Ksh 100,000 while unused stationery was valued at Ksh 150,000

Required

Prepare the statements of comprehensive income and statement of financial position for Meadow Windfalls Ltd As at 31st December 2022 (20 Marks)

QUESTION FIVE

a) Maoni company is engaged in the construction business in Kenya and earns a sum of Ksh 8,000,000 with a required rate of return, of 20%. The current capital structure of the business is Ksh 50,000,000.

You are required to estimate the fair capitalization level of Maoni company and state whether it's fairly capitalized. (5 Marks)

b) Compare and contrast over and undercapitalization. Describe the nature, causes and remedies of each (15 Marks)

Table A-3 Present Value Interest Factors for One Dollar Discounted at *k* Percent for *n* Periods: $PVIF_{k,n} = 1 / (1 + k)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	24%	25%	30%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8333	0.8065	0.8000	0.7692
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.6944	0.6504	0.6400	0.5917
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.5787	0.5245	0.5120	0.4552
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.4823	0.4230	0.4096	0.3501
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4019	0.3411	0.3277	0.2693
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3349	0.2751	0.2621	0.2072
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.2791	0.2218	0.2097	0.1594
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2326	0.1789	0.1678	0.1226
9	0.9143	0.8368	0.7664	0.7025	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.1938	0.1443	0.1342	0.0943
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.1615	0.1164	0.1074	0.0725
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.3173	0.2875	0.2607	0.2366	0.2149	0.1954	0.1346	0.0938	0.0859	0.0558
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2858	0.2567	0.2307	0.2076	0.1869	0.1685	0.1122	0.0757	0.0687	0.0429
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2575	0.2292	0.2042	0.1821	0.1625	0.1452	0.0935	0.0610	0.0550	0.0330
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2320	0.2046	0.1807	0.1597	0.1413	0.1252	0.0779	0.0492	0.0440	0.0254
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.1079	0.0649	0.0397	0.0352	0.0195