

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2015/2016**

FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

MASTER OF BUSINESS ADMNISTRATION

**BFA 5126: FINANCIAL ACCOUNTING**

**DATE: APRIL 2016 TIME: 3 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Explain the advantages and disadvantages of International Accounting Standards (IAS)

(10 marks)

1. Maua Ltd. is a company quoted on the Nairobi Security Exchange. It makes up its accounts to 31 March each year. The balance of the company as at 31 March 2013 is as follows:

|  |  |  |
| --- | --- | --- |
|  | Sh. Million | Sh. Million |
| Administrative expenses | 99 |  |
| Borrowings |  | 103 |
| Buildings: Valuation at 1 Apr9il 2008 | 180 |  |
| Accumulated depreciation |  | 30 |
| Capital work in progress | 74 |  |
| Cash and bank balances | 5 |  |
| Cost of sales | 601 |  |
| Compensating tax payable |  | 8 |
| Deferred income taxes |  | 151 |
| Deferred expenditure | 15 |  |
| Distribution costs | 109 |  |
| Finance leases payable |  | 7 |
| Finance costs | 27 |  |
| Finance income |  | 2 |
| Inventories | 186 |  |
| Other operating expenses | 3 |  |
| Other operating income |  | 4 |
| Plant and machinery: Cost | 907 |  |
| Accumulated depreciation |  | 283 |
| Prepaid operating lease rental: Cost | 80 |  |
| Amortization of prepaid operating lease rental |  | 20 |
| Revaluation reserve |  | 110 |
| Share capital |  | 450 |
| Share premium |  | 188 |
| Taxation | 17 |  |
| Turnover (net of VAT) |  | 884 |
| Trade and other payables |  | 160 |
| Trade and other receivables | 194 |  |
| Revenue reserve |  | 95 |
| Unclaimed dividends |  | 2 |
|  |  |  |

Additional Information

1. Borrowings comprise: Sh. Million

Bank overdraft (interest are payable in the year 20%) 53

Bank loan, repayable 31 March 2005 (interest rate 13% fixed) 50



1. Buildings: Historical cost 60

Depreciation charge for the year included in cost of sales 6

Maua’s LTD accounting policy in relation to the difference between depreciation based on the revalued amount of buildings (sh.6 million) and depreciation based on the buildings’ historical cost (Sh. 2 million) is to treat it as revaluation surplus realized as the buildings are used. This transfer for the year has not yet been made.

The buildings had been revalued by Llord Masika, Registered Valuers and Estate Agents, on an open market basis.

Accumulated depreciation on historical cost of buildings as at 31 March 2003 was Sh. 20 million

No impairment losses have occurred in the life of the company.

1. Capital work in progress relates to ongoing construction of a new kin.
2. The compensating tax payable was in respect of the previous year’s dividend paid in the year.

The compensating tax payable was in respect of the previous year’s dividend paid in the year.

The directors have proposed that a dividend of 10% be paid for the year ended 31 March 2013. No entry has been made in the financial statements to reflect this. Proposed dividends are accounted for as a separate component of equity until they have been ratified at a general meeting.

1. Deferred expenditure represents development costs relating to production of new products that are written off over four years. Expenditure of shs.20 million was incurred early in the year to 31 March 2013. The amortization charge for the year was Sh. 5 million.
2. The tax expense for the year is as follows: Sh.Million

Current taxation based on adjusted profit at 30% -

Deferred tax expense 17



Ignore deferred tax on the revaluation surplus

|  |  |
| --- | --- |
| Minimum lease payments | Present value of minimum lease payments |

1. Finance lease payable comprise:

Sh. Million Sh. Million

Payable within one year 3 5

Payable later than one year but not later than five years 8 5

 

1. Finance costs comprise: Sh. Million

Interest on bank loan 9

Interest on bank overdraft 16

Interest on finance leases 2



1. Finance income: Sh. Million

Interest received on bank deposits 

1. Inventories comprise: Sh. Million

Raw materials 48

Work in progress 29

Finished goods 51

Stores and spares 58



1. The depreciation charge for the year on the plant and machinery was Sh. 52 million and the amortization charge of the prepaid operating lease rental was Sh.2 million. All depreciation and amortization charges are included in cost of sales.
2. Other expenses included in the various functional expenses or cost of sales are:

Sh. Million Sh. Million

Directors’ emoluments: Fees 2

Other emoluments 12 14

Other staff costs: Wages and salaries 81

Social security costs (NSSF) 2

Termination benefits 3 86

Auditors’ remuneration 2

Loss on disposal of motor vehicles 3



The average number of staff employed by the company during the year was 603.

1. The authorized share capital of the company is made up of 90 million ordinary shares of Sh. 5 each.

**Required:**

Prepare the Income Statement and the Statement of Changes in Equity for the year ended 31 March 2013 and the Balance Sheet as at 31 March 2013. Maua Limited prepares its Balance Sheet sowing Total Assets and Total Equity and Liabilities. Any notes necessary to ensure that the Financial Statements are prepared in accordance with International Financial Reporting Standards should be added, but using only the information included above. Do not compute the earnings Per share of the year. (20 marks)

**QUESTION TWO (15 MARKS)**

The following trial balance was extracted from the books of Brian Mugambi, a sole trader at 31st December 2012.

|  |  |  |
| --- | --- | --- |
|  | Sh. | Sh. |
| Capital, 1 January 2012 |  | 3,165,620 |
| Purchases | 923,600 |  |
| Sales |  | 1,968,160 |
| Purchase returns |  | 5,600 |
| Sales returns | 16,160 |  |
| Discount allowed | 18,200 |  |
| Discount received |  | 14,080 |
| Wages and salaries | 622,000 |  |
| Rates | 49,000 |  |
| Insurance | 35,600 |  |
| General expense | 81,200 |  |
| Trade debtors | 368,000 |  |
| Trade creditors |  | 322,400 |
| Bank overdraft |  | 80,400 |
| Stock in trade, 1 January 2012 | 122,000 |  |
| Land and Buildings at cost | 1,700,000 |  |
| Plant and Machinery at cost | 1,230,000 |  |
| Motor vehicle at cost | 562,000 |  |
| Drawings | 208,200 |  |
| Cash in hand | 40,200 |  |
| Provision for depreciation:- |  |  |
| Motor vehicle |  | 112,400 |
| Plant and Machinery |  | 307,500 |
|  |  |  |

**NOTES**

1. Stock in trade on 31 December 2012 amounted to sh. 148,400.
2. Rates paid in advance as at 31st December 2012 amounted to   
   Sh. 7,000.
3. Outstanding electricity bill as at 31 December 2012 (this included in general expenses) amounted to sh. 3,580.
4. Debtors include an irrecoverable of sh. 5,600.
5. A five percent provision for doubtful debts is to be made on the recoverable debtors.
6. Depreciation is to be provided on the motor vehicle, plant and machinery at the rates of 20% and 25% respectively on the reducing balance method. No depreciation is to be provided on land and buildings.
7. Included in the wages and salaries is an amount of sh. 62,000 paid to the domestic workers of Mr. Brian Mugambi.
8. Outstanding wages and salaries as at 31 December 2012 amounted to sh. 24,800.

**Required:**

1. A trading and profit and loss account for the year ended 31 December 2012. (9 marks)
2. A balance sheet as at 31st December 2012. (6 marks)

**QUESTION THREE (15 MARKS)**

1. List the main advantages of ratio analysis. (5 marks)
2. Munyah Ltd. is an expanding company and the following accounts relate to its operations for the years 2013 and 2014:

**Profit statement for the year ended 30 June**

|  |  |  |
| --- | --- | --- |
|  | **2013** | **2014** |
|  | **Sh.** | **Sh.** |
| Sales | 3,000,000 | 4,800,000 |
| **Less:** Cost of goods sold |  |  |
| Gross profit | 1,150,000 | 2,100,000 |
| **Less:** trading expenses |  |  |
| Trading profit | 675,000 | 1,275,000 |
| **Less:** Debenture interest |  |  |
| Net profit before taxation | 637,500 | 1,275,000 |
| **Less:** Corporation tax |  |  |
| Net profit after taxation | 397,500 | 757,500 |
| **Less:** Ordinary share dividend |  |  |
| Undistributed profit for the year | 210,000 | 495,000 |

**Balance sheet as at 30 June**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2013** | | **2014** | |
|  | **Sh.** | **Sh.** | **Sh.** | **Sh.** |
| Fixed assets at cost | 1,500,000 |  | 2,100,000 |  |
| **Less:** Depreciation |  | 1,200,000 |  | 1,725,000 |
| Current assets: |  |  |  |  |
| Stock | 600,000 |  | 825,000 |  |
| Debtors | 375,000 |  | 525,000 |  |
| Cash |  |  |  |  |
| Less: current liabilities |  | 1,095,000 |  |  |
| Creditors | 217,500 |  | 300,000 |  |
| Taxation | 240,000 |  | 480,000 |  |
| Proposed dividend | 187,500 |  | 262,500 |  |
| Bank overdraft |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Financed by: |  |  |  |  |
| Ordinary share capital  (Authorized and issued) |  | 750,000 |  | 750,000 |
| Undistributed profits |  | 525,000 |  | 1,020,000 |
| 10% debentures |  | 375,000 |  | 165,000 |
|  |  |  |  |  |

**Required:**

1. Compute six accounting ratios for both 2013 and 2014 which you feel would be of particular value in assessing the Profitability and Liquidity of Munyah Ltd. (6 marks)
2. Comment on the current position of the company with the aid of the accounting ratios computed in (i) above and any other information that you consider to be relevant. (4 marks)

**QUESTION FOUR (15 MARKS)**

1. The bank columns of the cash book of XY Ltd for the month of May 2012 show the following transactions:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2012 |  | Sh. | 2012 |  | Cheque No. | Sh. |
| May 1 | Balance B/F | 48,230 | May 1 | Medical |  |  |
| 6 | Cash sales | 10,050 |  | Insurance Co. | 105 | 4,300 |
| 10 | S. Mitter | 6,270 | 2 | D. Mando | 106 | 1,750 |
| 15 | Cash Sales | 7,500 | 16 | J. Jibu | 107 | 480 |
| 25 | D. Day Co. | 3,718 | 25 | P. Peter | 108 | 1,920 |
| 31 | Cash Sales | 9,260 | 26 | K.Kirkwood | 109 | 3,935 |
|  |  |  | 28 | H. Hill | 110 | 40,000 |
|  |  |  | 29 | Jua Kali Garage | 111 | 1,530 |
|  |  |  | 30 | KPTC | 112 | 775 |
|  |  |  | 31 | Balance C/F |  | 30,338 |
|  |  |  |  |  |  |  |
| June 1 | Balance B/F | 30,338 |  |  |  |  |

The following was the bank statement for May 2012.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2012 |  | Dr. | Cr. | Balance |
| May 1 | Balance |  |  | 48,230 |
| 6 | Cheque No. 105 | 4,300 |  | 43,930 |
| 7 | Cash |  | 10,050 | 53,980 |
| 9 | Cheque 106 | 1,750 |  | 52,230 |
| 11 | S. Miller |  | 6,270 | 58,500 |
| 15 | Cash |  | 7,500 | 66,000 |
| 26 | Cheque No. 108 | 1,920 |  | 64,080 |
| 26 | Cheque 107 | 480 |  | 63,600 |
| 28 | D. Day Co |  | 3,718 | 67,318 |
| 28 | Cheque No. 109 | 3,935 |  | 63,383 |
| 29 | Mashada |  | 6,040 | 69,423 |
| 29 | Standing order |  |  |  |
|  | Subscription | 4,980 |  | 64,443 |
| 31 | Bank Charges | 1,410 |  | 63,033 |

**Required:**

1. Make entries in the cash book in order to ascertain a corrected cash book balance as at 31st May 2012. (5 marks)
2. Reconcile the revised cash book balance with the balance shown in the bank statement. (5 marks)
3. The balances on the following accounts at 1 January 2014 were:
4. Motor vehicles account shs. 2,108,000. Provision for depreciation of motor vehicles sh. 944,000.
5. During the year, a motor vehicle which originally cost shs. 942,000 was traded in for sh.220,000. The accumulated depreciation on the vehicle was shs. 616,000. The cost of the new vehicle was shs.1,276,000. The balance of sh. 1,056,000 was paid by cheque.
6. The closing balance on provision for depreciation of motor vehicles at 31 December 2014 was sh. 778,000.

**Required:**

For the year 2014:

1. Motor vehicles account
2. Provision for depreciation of motor vehicles account.
3. Disposal of motor vehicles account
4. Transfers to profit and loss account. (5 marks)

**QUESTION FIVE (15 MARKS)**

1. Explain the distinguishing features between receipts and payment account and income and expenditure account (5 marks)
2. The following is a summary of receipts and payments of XYZ social club for the year ended 31st December 2012.

|  |  |
| --- | --- |
|  | Sh. |
| Subscriptions received | 351,000 |
| Donations | 12,000 |
| Loan from a local bank | 300,000 |
| Sale of dance tickets | 325,000 |
| Rent paid for 15 months up to 31st March 1995 | 125,000 |
| Secretary’s Honoraria | 50,000 |
| Wages for employees | 210,000 |
| Electricity | 70,000 |
| Repairs to premises | 22,000 |
| Purchase of second hand vehicle | 350,000 |
| Incidental expenses | 47,000 |
| Expenses of organizing the dance | 100,000 |

The following additional information is provided:-

1. Balance of cash on 1st January 2012 was sh. 50,000
2. Electricity paid includes: 20,000 for the previous year. There was an amount of sh. 21,000 due on 31st December 2012 but not paid.
3. Incidental expenses include sh. 3,000 for the previous year.
4. Subscriptions received include sh. 20,000 paid in advance for the following year. In the previous year sh. 25,000 was received for the current year.
5. On 1st January 2012 the club owned equipment valued at sh.400,000. On the same date, the club had a deposit in the bank saving account amounting to sh. 150,000.
6. On 31st December 2012 the savings account was credited with shs. 5,000 as interest for the year.
7. Depreciation on equipment is to be provided at the following rates:

Equipment 10% on cost

Motor vehicle 20% on cost

**Required:**

1. Accumulated fund as at 1st January 2012 (2 marks)
2. Income and expenditure account for the year ended 31st December 2012. (5 marks)
3. Balance sheet as at 31st December 2012. (3 marks)