



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (HOMA BAY CAMPUS)

MBA 802: MANAGERIAL ECONOMICS

Date: 4th August, 2013

Time: 9.00 – 12noon

INSTRUCTIONS:

- ◆ Answer ANY FOUR questions.
- ◆ All questions carry equal marks.
- ◆ Do not write on a question paper.

Question 1

- a) "Professor Lionel Robbins stated that economics is the science that studies human behaviour as a relationship between ends and scarce means which have alternative uses." In the light of this statement, critically explain scarcity and decision making in managerial economics (8 Marks)
- b) "The function of a decision maker is very easy under the condition certainty. It is generally held that the condition of certainty is not found in business circles in practice. It is only a theoretical concept." Discuss the main areas of uncertainty in making business decisions in management of companies (7 Marks)

Question 2

- a) Explain production and show how the empirical production is expressed.
- b) A business company is a technical economic unit is engaged in production of purchase and sale of goods and services. Mr. Koech's firm has an objective of obtaining optimum efficiency in production table 1.1 shows Mr. Koech's production.

No. of Workers	Total Production TP_L (Tonnes)	Marginal Product (MP_L)	Average Product (AP_L)	Stages of Production
1	24			
2	72			
3	138			
4	216			
5	300			
6	384			
7	462			
8	528			

6. Rates of Sh.30,000 paid in December covering half year to 31 March 2000 have not been entered in the books.
7. Debenture interest has not been paid.
8. Depreciation on plant is at 10% on cost and buildings at 2% on cost.
9. The directors propose to pay a dividend of Sh.2 per share and transfer Sh.20,000 to the general reserve.
10. Corporation tax at a rate of 32% on profits is estimated to be Sh.90,000.

Required:

- (a) Statement of comprehensive income for the year ended 31 December 2009. (8 marks)
- (b) Statement of financial position as at 31 December 2009. (7 marks)

QUESTION TWO

The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

- (a) The business entity principle.
- (h) The historical cost principle.
- (c) The monetary principle.
- (d) The matching principle.
- (e) The conservatism principle.

Required:

For each of the principles listed above and using appropriate examples:

- (a) Explain its meaning. (5 marks)
- (b) Justify its use. (5 marks)
- (c) Explain any weaknesses associated with its use. (5 marks)

QUESTION THREE

On 31 December 2011 an inexperienced book-keeper working for Otis, a sole trader, extracted a trial balance. Due to errors committed by the book-keeper, the trial balance failed to balance by Sh.369,400. He placed the difference in a suspense account as shown below:

Otis trial balance as at 31 December 2011

	Sh.	Sh.
Non-current assets-cost	832,000	
Inventory		
1 January 2011	148,000	
31 December 2011		98,800
Trade debtors		76,000
Prepayments		10,000
Trade creditors	34,600	
Bank overdraft		15,200
Accruals		16,000
Drawings	359,600	
Capital		1,054,000
Sales	1,043,200	
Provision for depreciation		166,400
Purchases		733,000
Operating expenses	126,000	
Provision for doubtful debts		3,800
Discounts received	5,000	
Discounts allowed		5,800
Suspense account		369,400
	2,548 400	248 400

Investigations carried out after preparing the above trial balance detected the following errors:

1. The total of the sales day book for December 2011 was overcast by Sh.25,700.
2. On 2 July 2011 the business purchased office equipment for Sh.40,000. These were debited to purchases account.
3. Depreciation on the equipment is at the rate of 10% per annum on cost and based on the period (months) of usage in the year.
4. A payment to a creditor by cheque of Sh.8,500 was erroneously credited to the creditor's account.
5. A payment of Sh.4,500 for telephone expenses was debited to telephone account as Sh.5,400.
6. An amount of Sh.15,000 received from a debtor was not posted to the debtor's account from the cash book.

7. An amount of discounts received of Sh.2,500 was debited to discounts allowed account.
8. Purchases day book for October 2011 was undercast by Sh.28,000.
9. Assume the business had reported a net profit of Sh.85,800 before adjusting for the above errors.

Required:

- (a) The adjusted trial balance and the correct balance of the suspense account. (8 marks)
- (c) Suspense account starting with the balance determined in the adjusted trial balance in (a) above. (4 marks)
- (d) The adjusted net profit for the year. (3 marks)

QUESTION FOUR

Given below are the comparative balance sheets of Tetesi Ltd., a trading company, for the years ended 31 October 2010 and 2011:

	2011		2010	
	Sh.'000'	Sh.'000'	Sh.'000'	Sh.'000'
Assets				
Non current assets:				
Goodwill	23,500		32,650	
Premises	200,000		80,000	
Plant and machinery	290,100		278,200	
Office equipment	<u>126,250</u>	639,850	<u>87,360</u>	478,210
Current assets:				
Stock	88,890		67,815	
Debtors	57,890		52,015	
Bank	<u>9,210</u>	<u>155,990</u>	-	<u>119,830</u>
		<u>795,840</u>		<u>598,040</u>
Capital and Liabilities				
Capital:				
Ordinary shares	425,000		250,000	
10% redeemable pref shares	75,000		160,000	
Share capital	33,000		-	
Capital redemption reserve	30,000		-	
General reserve	38,000		12,000	
Profit and loss account	<u>22,300</u>	<u>623,300</u>	<u>11,200</u>	433,200

Non-current liability		63,000		50,000
Bank loan				
Current liabilities	49,820		40,290	
Creditors	30,500		28,500	
Current tax	26,000		18,000	
Proposed ordinary dividends	3,200		5,420	
Accruals	-	<u>109,540</u>	<u>22,630</u>	<u>114,840</u>
Bank overdraft		<u>795,840</u>		<u>598,040</u>

The following additional information is provided:

1. Some of the redeemable preference shares which had been issued at par, were redeemed at a premium of 2%. To finance the redemption and comply with the Companies Act requirements, the company simultaneously carried out the following:
 - (i) Issued 5,500,000 additional ordinary shares of Sh.10 at a total premium of Sh.34,700,000.
 - (ii) Transferred sufficient amounts to the capital redemption reserve.
 - (iii) Financed the premium on redemption out of the premium received on issue of the additional ordinary shares.
2. Preference dividends are paid at the end of each financial year on shares outstanding then.
3. Part of plant and machinery which had cost Sh.60,000,000 on acquisition and on which Sh.42,000,000 accumulated depreciation had been provided was sold for Sh.25,000,000 during the year.
4. Included in the depreciation charge for the year is Sh.15,100,000 in respect of plant and machinery.
5. New office equipment was purchased in the year for Sh.55,000,000. There was no disposal of office equipment during the year.
6. It is the company's policy not to depreciate premises. The change in the premises account balance was due to a revaluation of the asset.
7. The revaluation reserve arising in (6) above was all to finance the issue of fully paid-up bonus shares of Sh.10 each to ordinary shareholders.
8. A new bank loan of Sh.25,000,000 was received in the year. Bank interest of Sh.8,000,000 was also paid in the year.
9. Current tax liability is in respect of the tax charge for the respective year.
10. During the year ended 31 October 2011 an interim dividend of Sh.14,000,000 was paid.

Required:

Cash flow statement in accordance with IAS 7.

(15 marks)

QUESTION FIVE

The following are the summarized financial statements of Benito limited:

Statement of comprehensive income for the year ended 31 October.

	2012	2013
	Sh.'000	Sh.'000
Sales	93,500	11,350
Cost of sales	(55,120)	(72,970)
Gross profit	38,380	38,380
Expenses	(26,230)	(23,960)
Net profit before interest and tax	12,150	14,420
Loan interest	(450)	(375)
Net profit before tax	11,700	14,045
Taxation	(3,510)	(5,413.5)
Net profit after tax	8,190	8,631.5
Dividend	(6,00)	(6,000)
Retained profit	<u>2,190</u>	<u>2,631.5</u>

Statement of financial position as at 31 October

	2012		2013	
	Sh.'000	Sh.'000	Sh.'000	Sh.'000
Fixed assets:				
Freehold premises	10,500		10,500	
Plant and equipment	7,200		9,500	
Motor vehicles	<u>5,350</u>	23,050	<u>7,300</u>	27,300
Current assets:				
Stock	12,500		11,800	
Debtors	9,850		8,900	
Bank balance and cash in hand	<u>5,950</u>	28,300	<u>5,864.5</u>	26,564.5
Current liabilities:				
Creditors	8,350		7,830	
Taxation	3,510		5,413.5	
Dividend	<u>3,000</u>	(14,860)	<u>3,000</u>	(16,243.5)
		<u>36,490</u>		<u>37,621</u>
Ordinary share capital		30,000		30,000

Reserves		<u>3,490</u>		<u>5,121</u>
		33,490		35,121
15% loan		<u>3,000</u>		<u>2,500</u>
		<u>36,490</u>		<u>37,621</u>

Note:

- 80% of the sales are on credit
- The stock as at 31 October 2001 was valued at Sh.13,000,000

Required:

- (a) Calculate two ratios for each classification identified below for the financial years ended 31 October 2002 and 2003:
- Profitability ratios (3 marks)
 - Liquidity ratios (3marks)
 - Gearing ratios (3 marks)
 - Activity ratios (3 marks)
- (b) Comment on Beбето Ltd's profitability and liquidity positions. (3marks)

QUESTION SIX

- (a) The bank statement and cashbook balances should agree, but sometimes these balances may not agree:

Required:

Discuss this statement and explain why it is important to prepare a bank reconciliation statement. (4 marks)

- (b) On 31 October 2012, the cashbook of Mwila Enterprises Ltd. Showed a debit balance of Sh.1,710,000. This did not agree with the balance shown in the bank statement. Upon investigation, the accountant discovered the following errors.
- A cheque paid to Kinda for Sh.306,000 had been entered in the cashbook as Sh.387,000
 - Cash paid into the bank by a customer for Sh.90,000 had been entered in the cashbook as Sh.81,000
 - A transfer of Sh.1,110,000 to Central Savings Bank had not been posted to the cash book.
 - A receipt of Sh.9,000 shown in the bank statement had not been posted in the cashbook.
 - Cheques drawn amounting to Sh.36,000 had not been paid into the bank.

6. The cash book balance had been incorrectly brought down at 1 November 2003 as a debit balance of Sh.1,080,000 instead of a debit balance of Sh.990,000
7. Bank charges of Sh.18,000 do not appear in the cash book.
8. A receipt of Sh.810,000 paid into the bank on 31 October 2004 appeared in the bank statement on 1 November 2004.
9. A standing order of Sh.27,000 had not been recorded in the cash book.
10. A cheque for Sh.45,000 previously received and paid into the bank had been returned by the customer's bank marked "account closed".
11. The bank received a direct debit of Sh.90,000 from an anonymous customer.
12. Cheques banked had been totaled at Sh.135,000 instead of Sh.153,000.
13. A cheque drawn in favour of Nyanja for Sh.120,000 had been entered on the debit side of the cashbook.

Required;

- (i) Adjusted cash book as at 31 October 2012. (8 marks)
- (ii) A bank reconciliation statement as at 31 October 2012. (3 marks)