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**University Examinations 2014/2015**

FIRST YEAR, FIRST SEMESTER EXAMINATION FOR MASTERS OF BUSINESS ADMINISTRATION

**HCBA 3103/BFA 5126 – FINANCIAL ACCOUNTING**

**DATE: APRIL 2015 TIME: HOURS**

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

**QUESTION ONE (30 Marks)**

The following information relates to Timau Ltd as at 31.3.2015

**Net Book values**

**Assets 2013 2014 2015**

**Shs ‘000’ Shs’000’ Shs’000’**

Land 150,000 160,000 180,000

Buildings 450,000 432,000 414,000

Plant & Machinery 800,000 720,000 648,000

Equipments 120,000 110,500 92,000

Computers 70,000 42,000 21,000

Software 30,000 20,000 10,000

Furniture 20,000 17,500 15,000

Motor vehicles 180,000 160,000 140,000

Current Assets 50,000 60,000 55,000

Current liabilities (35,000) (48,000) (45,000)

Net Assets 1,835,000 1,674,000 1,530,000

**Financed by:**

Ordinary share

**Sh ‘000’ Sh ‘000’ Sh ‘000’**

Capital ,sh 10 par value 900,000 900,000 900,000

**2013 2014 2015**

Share premium 200,000 200,000 200,000

Retained Earnings 335,000 164,000 ----------

Capital Reserves 100,000 110,000 130,000

5 yr fixed term 9% Bonds 300,000 300,000 300,000

1,835,000 1,674,000 1,530,000

Timau ltd is a flowers producing and selling company located in Timau, Meru county. The trading results for the company for the years ended 31.3.13,31.3.14 and 31.3.15 were as follows:

**TRADING RESULTS FOR 2013, 2014, 2015**

**31.3.13 31.3.14 31.3.15**

**Shs million shs million shs million**

Sales turnover 1,800 1,700 1,540

Cost of sales 600 750 850

Operations costs

Excluding interest 700 1,094 827

Earnings before interest

and tax 500 (144) (137)

Finance costs (27) (27) (27)

(473) (171) (164)

Taxation (48) ------ -------

Profits after tax 425 (171) (164)

Dividends 10% on capital (90) ------- ---------

Retained Earnings 335 (171) (164)

Balance b/f ……. 335 164

Balance c/d 335 164 0

**Macro- economic /social**

**Variables / Information**

Period retail price index 1.08 1.36 1.18

Level of attacks on

Flower farms 256 cases 538 cases 324 cases

Level of corruption

On business sales 3% 10% 18%

Exchange rate shs; dollar sh 90: 1 dollar shs 100:1 shs 92: 1 dollar

**Required:**

Compute for each year.

1. (i) The current ratio (1 Mark)

(ii) Profit margin ratio (1 Mark)

(iii) Asset turnover ratio (1 Mark)

(iv) Gearing ratio (1 Mark)

b) Discuss the financial and operational risks facing Timau ltd. Highlight the mitigation measures the company can devise to improve its earnings and its income statement.

(10 Marks)

c) Explain how the accounting and macroeconomic information displayed by these financial statements over a period of three years can be used by the government both at National and county levels to improve the likes of Timau ltd and Businesses in Kenya. (6 Marks)

d) In the wake of 1980 – 1990 with collapse of several banks in Kenya such as Kenya Finance, Euro Bank, Posta credit, Daima Bank, Trust Bank and in 2002 – 2008 closure of Charter house Bank it has been claimed that financial accounts of several financial institutions did not adequately communicate information underlying financial assets, liabilities and risks and that the accountants never found it more important to thoroughly understand and be able to critique the accounting practices which they use, (Bosire – ICPAK journal 2009)

**Required :**

1. Discuss the essential requirements of good accounting information its utility to its users and the market . (5 Marks)
2. Elucidate, in reference to the above, some of the limitations of accounting information.

(5 Marks**)**

1. Explain the term financial assets, financial liabilities and financial risks as echoed in the paragraph above and provide concrete examples for each case. (5 Marks)

**QUESTION TWO (15 MARKS**)

The following information was extracted from the books of Koma ltd on 31.3.15.Koma is a public limited liability company located in a rural area, a river delta about 480 kilometers from the capital of the Country.

**Shs million**

Sales turnover 174,000

Cost of sales 40,000

Operations costs (excluding finance costs) 33,000

Closing stocks 20,000

Debtors 40,000

Finance costs 20,000

Bank 70,000

Ordinary shares capital

Shs. 20 , par value , issued and fully paid 420,000

Fixed Assets (Net Book value) 623,000

8% Kenya Commercial Bank, 10 year 250,000

**Notes**

* Included in the sales turnover is value added tax at 16% which not been deducted nor paid to KRA.
* Included in the operations costs is Shs,. 13,000 million PAYE from employees which has not been deducted nor paid to KRA.
* Directors of Koma ltd announced the results for the year ended 31.3.15 and proposed 7% dividends on ordinary capital.
* Corporate tax rate 30% and dividends suffer a withholding tax at a rate of 10%
* All taxes of PAYE, withholding , corporate and VAT are remitted by Koma Ltd to Kenya Revenue Authority.

Koma ltd is located in a river delta with no adequate security , no tarmacked roads , no well distributed public water , and poor connection to National electric grid and community surrounding the company plant and offices is extremely poor and isolated from the mainstream economic activities of the nation.

**Required:**

Prepare for Koma Ltd.

1. Income statement for the year ended 31.3.15 (5 Marks)
2. Balance sheet as at 31.3.15 (5 Marks)
3. Explain critically how the river delta community its leaders , its publics, its politicians and its activists would use the accounting information you have generated above through the income statements and the Balance sheet to demand for better roads, better security alleviation from poverty and general well being of the locality and its people from the authorities. (5 Marks)

**QUESTION THREE (15 MARKS)**

1. Recently the Institute of Certified Public Accountants of Kenya ICPA(K) made a resolution to impose sh. 5 million fine to its members (practicing Accountants) who misbehave and fails to follow the laid down code of Ethics while in practice or service.

**Required:**

1. Can such a fine deter the incidences of banks collapse? Can it deter enterprises from going under receivership due to financial impropriety? And if so to what extent. Discuss (5 Marks)

ii) Can accounting and accounting information alone save a bank from collapse?Evaluate

(4 Marks)

1. Accounting plays a very important role in an enterprise and in the society despite some of its isolated failures, with a choice of your own enterprise illustrate some of the very important decisions made based on the accounting information provided by the accountants of that enterprise. (3 Marks)
2. Realisation concept, a theoretical framework of accounting holds that revenue should be recognized if goods or services have passed to and accepted by the customer , whether the customer has paid for or not.

To what extent can this concept or theoretical framework of accounting be held in regard to business realities of today in Kenya. Discuss. (3 Marks)

**QUESTION FOUR (15 MARKS)**

Tosha limited , a national wide company in the retail sector had its statements of financial position for years ended 31.3.14 and 31.3.15 as follows:

Balance sheet Balance sheet

as at 31.3.14 as at 31.3.15

**shs’000’ shs ‘000’**

Non current Assets

Property , plant , equipments 850,000 1,190,000

Depreciation (260,000) (370,000)

590,000 820,000

Current Assets

Stock 340,000 400,000

Debtors 260,000 240,000

Bank 100,000 135,000

1,290,000 1,595,000

**Equity**

Shs 10 ordinary shares 260,000 380,000

Share premium 120,000 130,000

Retained Earnings 310,000 535,000

690,000 945,000

**Non current Liabilities**

10 % Bank loan 200,000 100,000

**Current Liabilities**

Trade creditors 150,000 230,000

Taxation 120,000 150,000

Dividends 130,000 710,000

1,290,000 1,595,000

**Notes**

1. No property , plant and equipment was disposed during the year ended 31.3.15
2. Of the 10% Bank loan , shs 100 million was redeemed on 31.12.14

**Required:**

1. Cashflow statement for the year ended 31st March, 2015. (10 Marks)
2. In the light of a cashflow, Discuss the claims that a cashflow is a yard stick of improving the liquidity and cash of an enterprise to meet its obligations.

**QUESTION FIVE**

1. Several fundamental techniques are used to evaluate , analyse and to compare financial statements over a period of time and across industries or countries or continents. In light of the above observations critically discuss the following techniques;
2. Horizontal analysis (2 Marks)
3. Vertical analysis (2 Marks)
4. Trend analysis (2 Marks)
5. (i) Is standardization the same as harmonization? Elaborate. (2 Marks)

(ii) Discuss the merits for the global standardization of financial reporting and accounting. (4 Marks)

(iii) Elucidate briefly the reasons/ argument behind regulation of accounting by profession bodies and by government. (3 Marks)