# KENYATTA UNIVERSITY

## UNIVERSITY EXAMINATIONS 2011/2012

## SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (COMPUTER ENGINEERING)

## SCE 429: ACCOUNTING AND FINANCE

DATE: Friday, 13th April, 2012 TIME: 2.00 p.m. – 4.00 p.m.

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**INSTRUCTIONS:**

**Answer Question One and Two Other Questions**
**Show All your workings.**

**QUESTION ONE (30 Marks)**

a) using suitable examples, explain the following accounting concepts:

i) prudence concept

ii) matching / accrual concept

iii) Going- on concept

iv) Consistency concept

(8 marks)

b) Explain 4 users of accounting reports (4 marks)

c) Although profit maximization has long been considered as the main goal of a firm Shareholder wealth maximization is gaining acceptance amongst most companies as the key goal of a firm

i) Distinguish between the goals of profit maximization and shareholder wealth maximization. (4 marks)

ii) Explain three limitations of the goal of profit maximization. (3 marks)

d) Explain three key roles of a capital markets regulator in your country. (3 marks)

e) i) Distinguish between a credit policy and a working capital policy (4 marks)

ii) List factors that should be considered in establishing an effective working capital Policy. (4 marks)

**(30 marks)**

## QUESTION TWO.

Mr. Oketch commenced trading as a wholesale trader on 1 May 2009 with a Capital of Shs. 5,000 with which he opened a bank account for his business.
During the month of May the following transactions took place.

**MAY**

1 Bought shop fittings and fixtures on credit from Storek fittings ltd Shs.2,000.
2 Purchased goods on credit from Abel Shs.650
4 Sold goods on credit to Bruce Shs. 700
9 Purchased goods on credit from Green Shs 300.
11 Sold goods on credit to Hill Shs.580.
13 Sales paid into bank Shs. 200.
16 Received cheque from Bruce in settlement of his account
17 Purchased goods on credit from Kaye Shs.800.
18 Sold goods on credit to Nailor Shs.360
19 Sent cheque to Abel in settlement of his account.
20 Paid rent by cheque Shs. 200.
21 Paid delivery expenses by cheque Shs. 50
24 Received from Hill Shs. 200 on account
30 Drew cheques for personal expenses Shs.200 and Assistants wages Shs. 320.
31 Settled the accounts of Green and Storek fittings ltd.

**Required**
Accounting Ledger records and Trial Balance as at 31, May 2009.
**(20 marks)**

## QUESTION THREE

Mambo Yote limited presented the following trial balance at the close of business on 31 December 2010 .

| | Shs. | Shs |
|---|---|---|
| Capital | | 18,827 |
| Sales | | 210,420 |
| Purchases | 108,680 | |
| Stock(1.1.2010) | 9,410 | |
| Carriage outwards | 1,115 | |
| Carriage inwards | 840 | |
| Return inwards and outwards | 4,900 | 3,720 |
| Salaries & wages | 41,800 | |
| Motor expenses | 912 | |
| Rent | 6,800 | |
| Sundry expenses | 318 | |
| Motor Vehicle (cost) | 14,400 | |
| Fixtures and Fittings(cost) | 912 | |
| Debtors and Creditors | 23,200 | 14,100 |
| Cash at bank | 4,100 | |
| Cash in hand | 240 | |
| Drawings | 29,440 | |
| | **247, 067** | **247,067** |

Additional information

2. Stock at 31 December 2010 was Shs. 11,290.

3. A provision for bad and doubtful debt of 5 % of the trade Debtors is to be made.

4. Rent of Shs.800 is outstanding on 31 December 2010.

5. Provide depreciation for the year using straight line method:

   -Motor vehicle - 10% p.a

   -Fixtures and fittings - 5% p.a.

**Required**

Income statement for the year and balance sheet as at 31, December 2012.

**(20 marks)**

## QUESTION FOUR

You are given the following information from the books of ABC Co. Ltd.

ABC Ltd Trading, Profit & Loss A/c for the year ended 31st December 2009.

| | Shs. | Shs. |
|---|---|---|
| Sales - Cash | | 300,000 |
| -Credit | | 600,000 |
| | | 900,000 |
| Less Cost of sales | | |
| Opening Stock | 210,000 | |
| Purchases | 660,000 | |
| | 870,000 | |
| Less Closing stock | (150,000) | |
| | | (720,000) |
| Gross Profit | | 180,000 |
| Less Expense | | |
| Depreciation | 13,100 | |
| Directors Emoluments | 15,000 | |
| General expenses | 20,900 | |
| Interest on Loan | 4,000 | (53,000) |
| Net profit before tax | | 127,000 |
| Less Corporation tax at 50% | | 63,500 |
| Net profit after tax | | 63,500 |
| Less appropriation | | |
| Preference dividend | 4,800 | |
| Ordinary dividend | 10,000 | |
| | | 14,800 |
| Profit and Loss A/c | | **48,700** |

Balance Sheet of ABC Co. Ltd as at the year end, on 31 December 2009.

| | Shs. | Shs. |
|---|---|---|
| Fixed Assets | | 213,900 |
| Current Assets: | | |
| Stock | 150,000 | |
| Debtors | 35,900 | |
| Cash and others | 20,000 | |
| | 205,000 | |
| Less Current Liabilities | | |
| Creditors | 60,000 | |
| Provision for Corporation Tax | 63,500 | |
| Proposed dividends | 14,800 | |
| | 138,300 | |
| Working Capital | | 67,600 |
| | | **281,500** |
| **FINANCED BY:** | | |
| Share Capital | | |
| Ordinary Share Capital @ 10/- | 100,000 | |
| 8% Preference Share Capital | 60,000 | |
| | | 160,000 |
| Revenue Reserve | | |
| P & L A/c (31.12 2008) | 32,800 | |
| P & L A/c (31.12 2009) | 48,700 | |
| | | 81,500 |
| 10% Loan Finance | | 40,000 |
| | | **281,500** |

You are also given the following relevant information;

1. The company s shares of 10/- currently sells at 20/- in the stock exchange.
2. The Company pays a dividend of 10% p.a. which is likely to be maintained in the foreseeable future.
3. The Corporation tax is 50%.

**Required:** Compute two relevant ratios under each of the following headings:

i) Liquidity  iii) Investment  v) Activity
ii) Profitability  IV) Gearing  **(20 marks)**

## QUESTION FIVE

Company XYZ Ltd. Can invest in one of the following two projects A and B which require an initial cash outlay of Shs.1,000,000 and will pay an interest rate of 10% on this money. These projects will generate the following cash inflows;

| Year | Project A | Project B |
|---|---|---|
| | Shs | Shs |
| 1 | 500,000 | 600,000 |
| 2 | 40,000 | 160,000 |
| 3 | 100,000 | 40,000 |
| 4 | 600,000 | 500,000 |
| 5 | 160,000 | 100,000 |

**Required;**

Using i) PBP Method

ii) NPV Method

iii) IRR Method

iv) PI Method

Advise the management which one of the two projects they should invest in. **(12 marks)**

b. i) Define the term Capital Rationing. **(2 marks)**

ii) Describe the main factors that usually lead to Capital Rationing. **(6 marks)**