KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

DATE: WEDNESDAY 30TH NOVEMBER 2016 **TIME: 2.00 P.M. - 5.00 P.M.**

INSTRUCTIONS

Answer ALL the questions in the separate booklet provided

QUESTION ONE

i. Qualitative characteristics are the attributes that make the information provided in financial statements of enterprises useful to users. Identify and explain are **four** principal qualitative characteristics described in the IASB's framework **(2marks)**

ii. The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the sane 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:

(a) Explain its meaning. **(5marks)**
(b) Justify its use. **(5 marks)**
(c) Explain any weaknesses associated with its use. **(3 marks)**

(Total:15 marks)

QUESTION TWO

As at 30 March 2015, your retail business has the following balances on the ledger accounts:

	sh
Bank loan	12,000
Cash in hand	11,700
Capital	13,000
Rates	1,880
Trade Creditors	11,200
Purchases	12,400
Sales	14,600
Sundry Creditors	1,620
Debtors	12,000
Bank loan interest (paid)	1,400
Other expenses	11,020
Vehicle expenses	2,020

Required:

(a) Draw up the trial balance as at 30 March 2015. **(3 marks)**

(b) On 31 March 2015 the business made the following transactions:

(i) Bought materials for £1,000, half for cash and half on credit
(ii) Made £1,040 sales, £800 of which was on credit
(iii) Paid wages to shop assistants of £260 in cash

Demonstrate the bookkeeping entries to take account of the above transactions, on 31 March 2004. **(3 marks)**

(c) Draw up the trial balance at 31 March 2004 to take account of the adjustments. **(4 marks)**

(Total 10 marks)

QUESTION THREE

a) Distinguish between capital and revenue expenditure. **(2 marks)**

b) Since 28 February 2013, Paul Phillips has made a provision for doubtful debts of 2% of outstanding debtors at the balance sheet date. On 28 February 2004 Paul decides that the provision has been overestimated and he reduces it to 1% of outstanding debtors.
Outstanding debtor balances at the various balance sheet dates are as follows:

28 February 2013 – sh150,200
28 February 2014 – sh170,100
28 February 2015 – sh210,400

Required:

(a) Show extracts from the following accounts for each of the three years:

(i) Debtors **(2 marks)**
(ii) Provision for doubtful debts **(2 marks)**
(iii) Profit and loss **(2marks)**

(b) Give **two** reasons why a business might want to write off a debt. **(2 marks)**

(Total 10 marks)

QUESTION FOUR
QUESTION TWO

Mr. Ancentus Okwengo is the sole proprietor of a small business. The following trial balance was extracted from his books at 31 March 2000.

	Sh. '000	Sh. '000
Capital		4,896
Freehold land and buildings (at cost)	3,600	
Plant and machinery at cost	3,480	
Provision for depreciation – plant and machinery		1,680
Delivery vans	960	
Provision for depreciation – delivery vans		672
Loose tools at valuation on 1 April 1999	288	
Stocks 1 April 1999	2,232	
Purchases	4,440	
Loose tools	192	
Sales		15,840
Wages and Salaries	5,288	
Rates and Insurance	384	
Repairs and maintenance of buildings	240	
Sales expenses including vehicle running costs	344	
Electricity and power	1,440	
Industrial training levy	72	
Administration expenses	672	
Provision for doubtfuldebts		240
Debtors and Creditors	1,984	1,928
Drawings	480	
Bank		864
Cash in hand	24	
	26,120	26,120

Additional information:

1. Closing stock on 3 1 March 2000 was Sh.2, 008,000. Loose tools at valuation Sh.384, 000.

2 Provision is to be made for the following amount owing on 3 1 March 2000: Electricity and power Sh.192,000.

3. Payments in advance on 31 March 2000 were as follows: Van licenses Sh.2,520 and rates Sh.13,800.

4. Depreciation on plant and machinery and delivery vans is to be provided at the rate of 20% and 25% respectively on cost at the end of the year.

5. Bad debts amounting to Sh.26,000 are to be written off and the provision for doubtful debts is to be 10% of trade debtors.

Required:

An income statement for the year ended 31 March 2000. **(10marks)**
A statement of financial position as at 31 March 2000. **(5 marks)**

(Total: 15 marks)

QUESTION FIVE

(a) The summarized financial statements of Baraka Enterprises Ltd. are as follows:

Income statement for the year ended 30 September

	2003	2004
	Sh.'000	Sh.'000
Sales	20,000	28,000
Cost of sales	(15,000)	(21,000)
Gross profit	5,000	7,000
Administrative expenses	(3,800)	(4,600)
Debenture interest		(400)
Net profit	1,200	2,000

Balance sheet as at 30 September

	2013	2014
	Sh.'000	Sh.'000
Assets:		
Non-current assets (net book value)	11,000	14,000
Current assets:		
Inventories	2,000	3,000
Trade and other receivables	2,500	2,800
Balance at bank	-	500
	4,500	6,300
Total assets	15,500	20,300
Equity and liabilities:		
Capital and reserves:		
Issued and fully paid		
1,000,000 ordinary shares of Sh.10 each	10,000	10,000
Revenue reserves	3,000	4,100
	13,000	14,100
Non current liabilities		
8% debentures	-	5,000
Current liabilities		
Trade and other payables	1,500	1,200
Bank overdraft	1,000	-
	2,500	1,200
Total equity and liabilities	15,500	20,300

Stock as at 1 October 2012 was Sh.5,000,000

Required:

For each year, calculate the following:

(a) Gross profit margin (1 marks)
(b) Inventory turnover (1 marks)
(c) Return on equity (1 marks)
(d) Return on assets (1 marks)
(e) Acid test ratio (1 marks)
(f) Current ratio (1 marks)
(g) Financial leverage (1 marks)

(b) Comment on the liquidity position of the company giving possible reasons for the change. (3 marks)

(Total: 10 marks)