KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2018/2019

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

DATE: THURSDAY 28TH MARCH 2019 TIME: 5.30 P.M. – 8.30 P.M.

INSTRUCTIONS
Answer ALL the questions

Question One

a) One way of regulating accounting, suggesting intervention beyond the more liberal approach, is through the adoption and enforcement of conceptual framework of accounting.

Discuss the need for conceptual framework of financial accounting (10 marks)

b) Define the following accounting concepts and for each explain their implication in the preparation of financial statements

i) The going concern concept (3 marks)
ii) Business entity concept (3 marks)
iii) Materiality (3 marks)
iv) Realization (3 marks)

c) Two accounting concepts or conventions could clash or there could be inconsistency between them.

Give two examples of such situations and explain how the inconsistency should be resolved. (3 marks)

QUESTION TWO(25 marks)

The following details were extracted from the trial balance of UMOJA ENTERPRISES for the year ended 31st December 2018.

	DR KSH'000'	CR KSH'000'
Plant & machinery	80,000	
Motor vehicle	64,000	
Furniture & fittings	48,000	
Purchases & sales	96,000	192,000
Stock 1/1/2018	16,000	
Discounts	8,000	17,600
Debtors & creditors	48,000	32,000
Provision for bad debts		8,000
Cash in hand	8,000	
Cash at bank	24,000	
Rent & rates	8,000	
Electricity & water	6,400	
Provision for depreciation:		
Motor vehicle		16,000
Plant & machinery		32,000
Furniture & fittings		16000
Bad debts	6,400	
Returns	8000	16000
Salaries & wages	16,000	
Drawings	25,600	
General expenses	16,000	
Capital		148,800
	478,400	478,400

Additional information;

(i) Stock as at 31/12/2018 amount to ksh 24,000,000

(ii) Accrued expenses are; salaries and wages ksh 2,400,000 ,electricity & water ksh 3,200,000

(iii) Expenses prepaid are; General expenses ksh 4,000,000 ,Rent & rates ksh 1,600,000

(iv) Provision for bad & doubtful debts is to be 10% of debtors.

(v) Depreciation is charged as follows;

-Plant & machinery 10% on cost p.a

-Motor vehicles 20% on cost p.a

-Furniture & fittings 15% on cost p.a

Required

(a)Income statement for the year ended 31st December 2018 (15 marks)

(b)Statement of financial position as at 31st December 2018 (10 marks)

QUESTION THREE (25marks)

(a) List the main advantages of ratio analysis. (5 marks)

(b) APEX Ltd. is an expanding company and the following accounts relate to its operations for the years 2017 and 2018:

Profit statement for the year ended 30 June

	2017	2018
	Sh.	**Sh.**
Sales	3,000,000	4,800,000
Less: cost of goods sold	1,650,000	2,700,000
Gross profit	1,350,000	2,100,000
Less: trading expenses	675,000	825,000
Trading profit	675,000	1,275,000
Less: Debenture interest	37,500	37,500
Net profit before taxation	637,500	1,237,500
Less: Corporation tax	240,000	480,000
Net profit after taxation	397,500	757,500
Less: Ordinary share dividend	187,500	262,500
Undistributed profit for the year	210,000	495,000

Balance sheet as at 30 June	2017		2018	
	Sh.	Sh.	Sh.	Sh.
Fixed assets at cost	1,500,000		2,100,000	
Less: Depreciation	300,000	1,200,000	375,000	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	120,000		1,350,000	
Less: current liabilities		1,095,000		
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed dividend	187,500		262,500	
Bank overdraft			97,500	
		(645,000)		(1,140,000)
		1,650,000		1,935,000
Financed by:				
Ordinary share capital (Authorised and issued)		750,000		750,000
Undistributed profits		525,000		1,020,000
10% debentures		375,000		165,000
		1,650,000		1,935,000

Required:

(i) Compute two profitability ratios, two liquidity ratios, two revenue ratios, one turnover ratio and one stability ratio for both 2017 and 2018. (16 marks)

(ii) 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.

(4marks)

QUESTION FOUR (25marks)

(a) Explain the three components of a cash flow statement (6 marks)

(b) Given below are the comparative balance sheets of KOPAT Ltd., a trading company, for the years ended 31 October 2017 and 2018:

	2018		2017	
Assets	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**
Non current assets:				
Goodwill	23,500		32,650	
Premises	200,000		80,000	
Plant and machinery	290,100		278,200	
Office equipment	126,250	639,850	87,360	478,210
Current assets:				
Stock	88,890		67,815	
Debtors	57,890		52,015	
Bank	9,210	155,990	-	119,830
		795,840		598,040
Capital and Liabilities				
Capital:				
Ordinary shares	425,000		250,000	
10% redeemable preference shares	75,000		160,000	
Share capital	33,000		-	
Capital redemption reserve	30,000		-	
General reserve	38,000		12,000	
Profit and loss account	22,300	623,300	11,200	433,200
Non-current liability				
Bank loan		63,000		50,000
Current liabilities				
Creditors	49,820		40,290	
Current tax	30,500		28,500	
Proposed ordinary dividends	26,000		18,000	

Accruals	3,200		5,420	
Bank overdraft	-	109,540	22,630	114,840
		795,840		598,040

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 2018 an interim dividend of Sh.14,000,000 was paid.

Required:

Cash flow statement in accordance with IAS 7. **(Total: 19 marks)**