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**University Examinations 2015/2016**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF

BUSINESS ADMINISTRATION

**BFA 5126: FINANCIAL ACCOUNTING**

**DATE: AUGUST 2016 TIME: 3 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***three***questions.

**QUESTION ONE (30 MARKS)**

1. Explain the following accounting concepts and conventions. For each explain their implication in the preparation of financial Statements.
2. Going concern concept (1 mark)
3. Business entity concept (1 mark)
4. Materiality (1 mark)
5. Realization (1 mark)
6. 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. (6 marks)
7. S. Kimani opened a textile business on1 January 2013. His transactions for the month of January were as follows:-

January 2 Opened bank account and deposited cash of Sh.50,000 and retained Sh. 10,000 in cash.

 3 Paid Sh.3,000 for rent in cash

 4 Purchased clothes for Sh.60,000 from Mulwa and Co. on credit.

 5 Sold clothes for Sh. 60,000 in cash

 6 Purchased new office furniture for Sh.50,000 by cheque.

 9 Banked cash Sh. 30,000

 10 Purchased clothes worth Sh.30,000 from Matthew and Mati

Drapers and paid half of the amount by cheque.

11 Sold clothes worth Sh.20,000 on credit to Bagaya Exporters.

12 Hired transport for Sh. 3,000 and paid in cash.

13 Bagaya Exporters returned some clothes costing Sh. 3,000 and

were given credit note for the same

16 Received cheque for Sh.6,000 from Bagaya Exporters on account.

18 Purchased clothes for Sh.9,000 on credit from Samuel Omayo

21 Sold clothes worth Sh.5,000 on credit to B.C Boutique.

23 Paid Mulwa and Co. Sh.15,000 by cheque on account

24 Withdrew Sh.6,000 from bank for personal use

25 Bought clothes for Sh,8,300 and paid by cheque

28 Sold clothes for Sh.5,400 to Sunshine Boutique and received a cheque for Sh. 1,400.

30 Paid Matthew and Mati Drapers by Cheque the full amount due to them less 5% discount.

31 Paid salaries Sh. 5,000 in cash and a water bill Sh. 700 by cheque.

**Required:**

1. Three-column cash book for the month of January 2013 (4 marks)
2. Make relevant entries in the ledger and balance all accounts (13 marks)
3. Extract a trial balance as at 31 January 2013 (3 marks)

**QUESTION TWO (10 MARKS)**

1. Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. (3 marks)
2. You have recently been employed in a medium size company and deployed in the accounts department. Your head of section has given you the following extract from the cashbook for the month of April 2003.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Sh.** |  | **Sh.**  |
| Receipts during the month  | 2,938,000 | Balance brought forward (1.4.2003)  | 1,522,000 |
| Balance carried forward (30.4.2003) | 1,108,000 | Payments during the month | 2,524,000 |
|  |  |  |  |

The head of section further informs you that all receipts are banked intact and all payments are made by cheque. On investigation, you discover the following:

1. Bank charges and commissions amounting to Sh. 272,000 entered on the bank statement had not been entered in the cashbook.
2. Cheques drawn amounting to Sh.534,000 had been presented to the bank for payment.
3. Cheques received totaling Sh. 1,524,000 had been entered in the cashbook and paid into the bank, but had not been credited by the bank until May 2003.
4. A cheque for Sh.44,000 had been entered as a receipt in the cashbook instead of a payment.
5. A cheque for Sh.50,000 had been debited by the bank by mistake.
6. A cheque received for Sh. 160,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends receivable are credited direct to the bank account. During the month of April 2003. Dividends totaling Sh. 124,000 were credited by the bank and no entries had been made in the cashbook.
8. A cheque drawn for Sh. 12,000 had been incorrectly entered in the cash book as Sh. 132,000.
9. The balance brought forward should have been Sh. 1,422,000.
10. The bank statement as at 30 April 2003 showed on overdraft of Sh. 2,324,000

**Required:**

1. The adjusted cashbook as at 30 April 2003 (5 marks)
2. Bank reconciliation statement as at 30 April 2003 (2 marks)

**QUESTION THREE (10 MARKS)**

The following trial balance was extracted from the books of Literary and Philosophical society as at 30 September 2000.

|  |  |  |
| --- | --- | --- |
|  | **Sh** | **Sh** |
| Balance at bank current account  | 724,800 |  |
| Accumulated fund 1 October 1999 |  | 5,771,200 |
| Land and building at cost | 3,700,000 |  |
| Debtors for subscription  | 62,000 |  |
| Furniture and fittings  | 1,874,000 |  |
| Provision for depreciation of furniture and fittings  |  | 284,000 |
| Subscriptions  |  | 1,450,800 |
| Lecturers’ fees | 920,000 |  |
| Lecturers’ travel and accommodation expenses  | 358,000 |  |
| Donations |  | 108,000 |
| Camera and projector repairs  | 17,000 |  |
| Projectors, cameras and audio equipment  | 190,400 |  |
| Depreciation of equipment  |  | 54,400 |
| Rates and water  | 277,000 |  |
| Lighting and heating  | 367,200 |  |
| Rental of rooms  |  | 495,000 |
| Wages – caretaker  | 880,000 |  |
| Restaurant expenses | 1,600,000 |  |
| Bar staff  | 800,000 |  |
| Purchase of food  | 1,565,800 |  |
| Stock – bar 1 October 1999 | 473,600 |  |
| Bar receipts |  | 4,032,000 |
| Bar purchases  | 2,842,000 |  |
| Restaurant receipts  |  | 3,642,000 |
| Loan  |  | 1,600,000 |
| Deposit account – Bank  | 1,000,000 |  |
| Interest payable and receivable  |  | 36,000 |
| Creditors for bar and food  |  | 178,400 |
|  |  |  |

**Additional information:**

1. The bar stock was valued at Sh.642,800 as at 30 September 2000.
2. It is expected that of the debtors for subscriptions, Sh. 43,600 will not be collectable.
3. The interest account is net. The loan is at the concessional rate of 4% while 10% has been earned on the deposit account. No changes have taken place all year in the principal sums involved.
4. An invoice for Sh.43,000 of wine had been omitted from the records at the close of the year although the wine had been included in the bar stock valuation.
5. Depreciation for the rear is to be provided as follows:

Furniture and fittings Sh. 194,000

Projectors, Cameras etc. Sh. 19,000

**Required:**

1. Bar and restaurant trading account for the year ended 30 September 2000 (2 marks)
2. An income and expenditure account for the year ended 30 September 2000 (8 marks)

**QUESTION FOUR (10 MARKS)**

1. Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. (5 marks)
2. The following categories of people are recognized as users of the information contained in financial statements:
* Owners.
* Financial analysts
* Lenders
* Employees
* Customers

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information (5 marks)

**QUESTION FIVE (10 MARKS)**

You have been provided with the following summarized accounts of Golden Times Ltd. For the year ended 31 March 2000:

|  |  |  |  |
| --- | --- | --- | --- |
| Balance sheet as at 31 March 2000 |  |  |  |
|  | **Sh.**  | **Sh.** | **Sh.**  |
| **Fixed Assets:** |  |  |  |
| Freehold property (Net Book Value)  |  |  | 480,000 |
| Plant and machinery (Net Book Value) |  |  | 800,000 |
| Motor Vehicle (Net Book Value) |  |  | 200,000 |
| Furniture and fittings (Net Book Value) |  |  |  |
|  |  |  | 1,680,000 |
| **Current Assets:** |  |  |  |
| Stocks |  | 1,000,000 |  |
| Debtors |  | 400,000 |  |
| Investments |  |  |  |
| **Current Liabilities:** |  |  |  |
| Trade creditors | 338,400 |  |  |
| Bank overdraft | 878,400 |  |  |
| Corporation tax | 176,000 |  |  |
| Dividends payable  |  |  |  |
|  |  |  |  |
| Financed by: |  |  |  |
| Authorized share capital – 800,000 |  |  |  |
| Sh. 1 ordinary shares |  |  |  |
| Issued and fully paid: 400,000 Sh.1 |  |  | 400,000 |
| Ordinary shares  |  |  |  |
| Capital reserve  |  |  | 200,000 |
| Revenue reserve |  |  | 800,000 |
| Loan capital: 400,000 10% Sh. 1 Debentures |  |  |   |
|  |  |  |  |

**Profit and loss account for the year ended 31 March 2000**

|  |  |
| --- | --- |
|  | Sh.  |
| Sales (credit) |  |
| Profit after charging all expenses except interest on  | 440,000 |
| debentures |  |
| Less: Debenture interest  | 400,000 |
| Profit before tax |  |
| Corporation tax  | 224,000 |
| Less: ordinary dividend proposed |  |
| Retained profit transferred to revenue reserve  |  |

The following additional information was available:

1. The purchases for the year were Sh. 2,160,000 while the cost of sales was Sh.3,000,000.
2. The market price for Golden Times Ltd. Ordinary shares as at 31 March 2000 was Sh. 5.
3. The company estimates the current value of its freehold property at Sh.1,100,000

**Required:**

Compute the following ratios for Golden Times Ltd:

1. Return on capital employed.
2. The profit margin
3. The turnover of capital
4. Current ratio;
5. Liquid ratio
6. Number of days accounts receivable are outstanding;
7. Proprietary ratio;
8. Stock turnover ratio;
9. Dividend yield ratio;
10. Price earnings ratio (10 marks)