

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

MBAD 811: FINANCIAL ACCOUNTING

STREAMS: MBAD

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 07/04/2021

2.30 P.M – 5.30 P.M

INSTRUCTIONS:

Answer all questions

QUESTION ONE

- (a) State and explain five attributes that make financial information provided in financial statements useful to users. [8 marks]
- (b) Mohammed Khadiri has a franchise with an international tyre manufacturer to supply its products in Kenya. He makes the accounts of his business operations to 28th February. As at 28th February 2018, the following trial balance was extracted from his books of account.

	Ksh '000'	Ksh '000'
Capital		144,000
Sales		259,000
Trade debtors and creditors	10,920	
Bank balance		371
Short term loan		6,475
Purchases	168,000	
Returns	952	196
Discounts	1,351	840
Salaries and wages	17,255	
Rent and rates (including advance ksh 240,000)	9,240	

Full depreciation is provided in the year of purchase but no depreciation is recorded in the year of disposal.

8. One of the debtors who owed Mr. Khadiri ksh 500,000, died in a road accident on 28th February. In view of the circumstances, it was decided to write off the debt. The provision for doubtful debts is to be adjusted to 1% of the balance of trade debtors outstanding as at the end of the year.
9. Include in the sales figure, was an advanced payment of ksh 310,000 received on 25th February 2018 from Khimji Singh, a customer, for tyres supplied on 10th March 2018. The tyres were included in the stock on 28th February 2018.
10. Rentokil ltd. Supplied cleaning services worth ksh 990,000 to the business on 27th February 2018. Since the amount had not been paid at 28th February 2018, the transaction had not been recorded in the books. Cleaning expenses are to be treated as a part of general administrative expenses.
11. Included in sales in an amount of ksh 280,000 relating to cash received on sale of an old motor vehicle. The motor vehicle had been purchased two years ago at a cost of ksh 300,000. No other entry had been recorded in the books.

Required :

- (a) Income statement for the year ended 28th February 2018 [12 marks]
- (b) Statement of financial position as at 28th February 2018. [10 marks]

QUESTION TWO

The following are the summarized accounts of Pole Pole ltd for the years ended 31st December 2012 and 2013:

	Cost	Depreciation	Net '000'	Cost '000'	depreciation	Net '000'
	000	000				
Land	1,000	200	800	1,800	220	1,580
Plant & machinery	200	80	<u>120</u>	220	100	<u>120</u>
			920			1,700
Investments			1,000			1,600
Motor vehicles			860			1,260

Stock	1,100	1,300
Debtors	800	1,000
Bank	<u>60</u>	-
	<u>4,740</u>	<u>6,860</u>
Ordinary shares ksh 20	800	1,000
Premium shares	240	280
Revaluation reserve	-	400
Profit and loss account	500	500
10% debentures	2,000	3,000
Creditors	800	1,200
Proposed dividends	400	400
Bank overdraft	-	80
	<u>4,740</u>	<u>4,740</u>

Profit and loss account

	2012 Ksh '000'	2013 Ksh '000'
Sales	4,000	4,000
Cost of sales	2,000	2,000
Gross profit	2,000	1,600
Expenses	1,200	1,200
Net profit	800	400
Dividends	400	400
Balance b/f	100	400
Balance c/f	500	500

Required :

Calculate for the years 2012 and 2013 the following ratios;

- | | | |
|-------|-----------------------------------|-----------|
| (i) | Return on capital employed (ROCE) | [4 marks] |
| (ii) | Debtors turnover | [4 marks] |
| (iii) | Creditors turn over | [4 marks] |
| (iv) | Current ratio | [2 marks] |
| (v) | Quick assets (acid test) ratio | [2 marks] |
| (vi) | Gross profit margin | [2 marks] |
| (vii) | Net profit margin | [2 marks] |

QUESTION THREE

Tipp enterprises commenced their manufacturing operations four years ago. They bought a manufacturing plant as a cost of ksh 20,000,000 when they commenced operations. Tip enterprises have so far provided an aggregate amount of ksh 14,000,000 as depreciation in their accounts. You are required to ascertain the amount to be written off in the profit and loss account of the current year under the following methods assuming 10% per annum rate of depreciation in each case.

- (a) Straight-line method [5 marks]
- (b) Diminishing balance method. [5 marks]
- (c) Discuss any five accounting assumptions. [10 marks]

QUESTION FOUR

- (a) On 31st December 2018, Karanja closed his books for the financial year. He found out that the total debtor amounted to ksh 960,000. Included in the amount were irrecoverable debts of ksh 4,400 owed by Awinja, ksh 9,000 owed by Kamau and ksh 6,600 owed by Ndumy. Karanja wrote off all these debts. In addition, he decided to make a provision for bad doubtful debts of 10% of the remaining debtors.

In the following year ended 31st December 2019, debtors totaled ksh 800,000. There were no bad debts but Karanja maintained the provision for bad doubtful debts at 10% of the debtors.

You are required to prepare the following for the two years ended 31st December 2019.

- (i) Bad debts and bad debts provision account [5 marks]
 - (ii) Profit and loss extract [4 marks]
 - (iii) Balance sheet extract [3 marks]
 - (b) Discuss internal and external users of accounting information highlighting the specific information they need from financial statements. [8 marks]
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