

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

MBAD 811: FINANCIAL ACCOUNTING

STREAMS: MBA YISI

TIME: 3 HOURS

DAY/DATE: TUESDAY 10/12/2019

2.30 PM – 5.30 PM

INSTRUCTIONS:

- **Answer ALL Questions**
- **Do not write on the question paper**

QUESTION ONE

- (a) Explain how assets and liabilities are recognized in financial statement. [4 marks]
- (b) Differentiate between capital expenditures and revenue expenditures, giving an example in each case. [4 marks]
- (c) Accounting is an art and a science. Discuss. [6 marks]
- (d) Mr. Njoroge opened a Kinyozi shop at Chogoria town. The following are the transactions relating to his business for the month of May 2012.
- (i) On 1st May opened a bank account with KCB for the business and deposited ksh. 300,000
 - (ii) On 8th May, he paid rent of ksh. 50000 for two months in advance for a small room at Chogoria plaza.
 - (iii) On 15th May, he furnished the store by installing new furniture worth ksh. 120000 sold to him on credit by Chuka furniture store, the amount being payable after 3 months
 - (iv) On 20th May, received electricity bill for the month amounting to ksh 10,000, payable by 10th of the following month
 - (v) On 31st May, he withdrew ksh. 90,000 from the business account for his personal use

Required:

Show the effect of the above transactions on the accounting equation.

[10 marks]

- (e) Explain the concept of substance over form and illustrate two cases in which this concept is applicable. [4 marks]
- (f) Explain the reason for provision for depreciation on Non-current assets. [2 marks]

QUESTION TWO

- (a) The following information was extracted from the financial statements of Mulima ltd and Ponde ltd in respect of the year ended 30 September 2005.

Income statement extracts
For the year ended 30th September 2005

	Mulima ltd Sh '000'	Ponde ltd Sh '000'
Sales	497,000	371,000
Cost of sales	258,000	153,000
Operating profit	138,000	79,000
Interest expense	19,000	-

Balance sheet Extracts
As at 30 September 2005

	Mulima ltd Sh '000'	Pombe ltd Sh '000'
Non -current assets	142,000	92,000
Current Assets:		
Inventory	100,000	87,000
Debtors	46,000	42,000
Cash at bank	40,000	44,0000
Current liabilities	98,000	108,000
Long term loan	33,000	-
Shareholders' funds	197,000	157,000

Required

For each company, compute the following accounting ratios

- (i) Acid Test Ratio [2 marks]
- (ii) Inventory turnover [2 marks]
- (iii) Average collection period [2 marks]
- (iv) Return on capital employed [2 marks]
- (v) Return on Equity [2 marks]

- (vi) Gearing ratios [2 marks]
 (vii) Debtors turnover [2 marks]
- (b) On the basis of ratios calculated in (a) above, comment on profitability liquidity and efficiency of the two firms. [3 marks]
- (c) Explain the need for control accounts. [4 marks]
- (d) Differentiate between errors of principle and errors of commission, giving an example in each case. [4 marks]

QUESTION THREE

- (a) The following trial balance has been extracted from the ledgers of N.Ombija who operates a confectionery in Embu town.

	Ksh	Ksh
Sales		169,000
Purchases	82,350	
Commission received		5,070
Carriage	5,144	
Drawings	7,800	
Rent, Rates & Insurance	6,622	
Motor repairs	10,000	
Advertising	1,330	
Proceeds on sale of equipment		900
Legal charges	10,000	
Bad debts	877	
Debtors	12,120	
Provision for bad debts		601
Creditors		6,000
Cash in hand	5,177	
Equipment at cost	40,000	
Provision for depreciation on equipment		3,100
Cash at Bank	10,423	
Stock as at 1 June 2005	40,000	
Building at cost	53,000	
Capital		72,091
	<u>256,770</u>	<u>256,770</u>

The following additional information is provided as at 31 May 2006

1. Rent is accrued by sh 210 while commission receivable due amounts to ksh. 522
2. Rates have been prepaid by ksh 880
3. Ksh. 2,211 of carriage represents carriage on purchases
4. Stock at the close of business has been valued at ksh. 13,551

5. Legal charges include ksh. 5,000 for the cost of stamps and registration of a new building acquired during the year
6. Motor repairs include repairs for proprietor's personal car which costed sh. 4,800
7. Further bad debts of ksh 2000 to be written off
8. Provision for bad debts is to be created at 2% of net amount outstanding from trade debtors.
9. Depreciation has been and is to be charged on equipment at an annual rate of 20% on cost. Depreciate buildings at ksh 5,000

Required:

Prepare an income statement for the year ended 31 May 2006 and a statement of financial position as at that date. [20 marks]

- (b) Explain the qualitative characteristics relating to content, that the accounting information should have in order to meet the needs of various users of the accounting information. [5 marks]

QUESTION FOUR

- (a) Chogoria wholesalers which is owned and managed by Mr. George Siro, presented the following financial statements for the years ended 31st December 2003 and 2004

Chogoria wholesalers
Income statements for the years ended 31 December

	2003	2004
	Sh.	Sh.
Sales	1,000,000	700,000
Cost of sales	<u>(400,000)</u>	<u>(280,000)</u>
Gross profit	600,000	420,000
Operating expenses (including depreciation)	(520,000)	(486,000)
Loss on sale of investments	-	(2,000)
	<u>80,000</u>	<u>(68,000)</u>

Chogoria wholesalers
Balance sheet as at 31 December

	2003	2004
	Sh.	Sh.
Non- current Assets	600,000	578,000
Equipment & furniture	40,000	10,000
Investments		
Current assets:	240,000	244,000
Stock	80,000	46,000
Debtors	<u>20,000</u>	<u>120,000</u>

Cash	<u>340,000</u>	<u>410,000</u>
Current Liabilities:		
Trade payables	100,000	146,000
Expense creditors	<u>34,000</u>	<u>28,000</u>
	<u>134,000</u>	<u>174,000</u>
Net current Assets	<u>206,000</u>	<u>236,000</u>
Net Assets	<u>846,000</u>	<u>824,000</u>
Financed by:		
Owner's capital	240,000	270,000
Retained Earnings	<u>116,000</u>	<u>48,000</u>
	356,000	318,000
Long term liabilities		
Loans	<u>490,000</u>	<u>506,000</u>
Owners' equity and liability	<u>846,000</u>	<u>824,000</u>

Additional information:

1. Furniture costing ksh. 48000 was acquired during the year ended 31 December 2004. Chogoria suppliers paid ksh. 12,000 in cash and signed a loan agreement with the seller for the balance. The loan was still outstanding as at 31 December 2004 and is included with other loans under long term liabilities.
 2. All sales and purchases are on credit
Required:
Prepare a statement of cashflows for Chogoria wholesalers for the year ended 31 December 2004 using direct format. [22 marks]
- (b) State any three uses of the general journal. [3 marks]
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