

**CHUKA**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

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

**MBAD 811: FINANCIAL ACCOUNTING**

**STREAMS: MBA Y1S1**

**TIME: 3 HOURS**

**DAY/DATE: THURSDAY 12/04/2018**

**2.30 P.M. – 5.30 P.M.**

**INSTRUCTIONS:**

- **Answer all questions.**

**QUESTION ONE:**

The following balances were extracted from the books of Patel and Sons in respect of the year ended 31<sup>st</sup> December 2005

	Sh “000”	Sh “000”
Sales		1,352,000
Purchases	990,000	
Debtors and creditors	177,800	83,400
Stock in trade (1/1/2005)	80,000	
Machinery (cost)	112,000	
Furniture	17,000	
Rent for building	19,200	
Cash in hand	8,500	
Cash at bank	34,788	
Drawings	24,000	
Capital		180,000
Salaries	37,820	
Bad debts	2,400	
Expense account	6,000	
Provision for bad debts		6,400
Printing expenses	4,600	
Postage	3,000	
Travelling expenses	15,800	

Telephone Expenses	3,200	
Miscellaneous expenses	83,612	
Insurance expenses	<u>2,080</u>	
	<u>1,621,800</u>	<u>1,621,800</u>
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**Additional information:**

1. Old furniture which stood in the books (as at 1/1/2005) at Ksh. 2,400,000 was disposed of at Sh. 1, 160,000 during the year in part exchange for new furniture costing Ksh. 2, 080,000. A net invoice of Ksh. 920,000 in respect of this transaction was erroneously passed through the purchase day book.
2. The suspense account represented money advanced to a sales team detailed to undertake a sales campaign in Rift Valley Region. On returning, the sales team disclosed that Ksh. 2, 400, 000 was used for travelling, Ksh. 1,000,000 for legal fee and Ksh. 1,800,000 for miscellaneous expenses. The balance was yet to be refunded by 31 December 2005
3. The business is conducted in a rental building and 50% of the building is used for accommodation of the business owner's family.
4. Depreciation is to be provided on the straightline basis at 10% per annum on machinery and 5% per annum on furniture. Depreciation is to be applied for the whole year regardless of date of purchase of the asset.
5. Total bad debts for the year amounted to Ksh. 4, 000, 000. Provision for doubtful debts is to be maintained at 5% of the outstanding debtors.
6. Closing stock amounted to Ksh. 100,000,000
7. Insurance premiums cover the one year period ended 31<sup>st</sup> January 2006.

Required:

- (i) Trading profit and loss account for the year ended 31<sup>st</sup> December 2006.(10 marks)
- (ii) Balance sheet as at 31<sup>st</sup> December 2005. (10 marks)

**QUESTION TWO**

- (a) Identify any four potential users of company financial statements, briefly explaining for each one their information needs from those statements. (6 marks)
- (b) Briefly explain any four fundamental accounting concepts and indicate their implications in the preparations of financial statements. (6 marks)

- (c) The interpretation of financial analysis involves evaluating relationships between component parts of financial statements.

**Required:**

Explain any two techniques of analysis that you can adopt to undertake the interpretation of the financial statements. (4 marks)

- (d) Distinguish between “cash basis of accounting” and “accrual basis of accounting.” (4 marks)

**QUESTION THREE**

The following financial statements are available for Super limited for the year ended 31<sup>st</sup> March 2018.

Super Limited  
Statement of financial position as at 31 March 2018

	2018	2017
<b>Assets</b>	Sh “000”	Sh “000”
<b>Non-current assets</b>		
Freehold property	<u>545,000</u>	<u>410,000</u>
	<u>545,000</u>	<u>410,000</u>
<b>Current assets:</b>		
Inventories	90,000	81,000
Accounts receivables	83,000	75,000
Bank balances	<u>45,000</u>	<u>64,000</u>
	<u>218,000</u>	<u>220,000</u>
Total assets	<u>763,000</u>	<u>630,000</u>
<b>Equity and liabilities</b>		
Capital and reserves:		
Sh. 1 Ordinary shares	150,000	100,000
Share premium	20,000	-
Retained earnings	<u>476,000</u>	<u>431,000</u>
Total Capital and Liabilities	<u>646,000</u>	<u>531,000</u>
<b>Current liabilities</b>		
Account payables	97,000	69,000
Corporation tax payable	<u>20,000</u>	<u>30,000</u>
	<u>117,000</u>	<u>99,000</u>
Total equity and liabilities	<u>763,000</u>	<u>630,000</u>

**Income statement for the year ended 31 March 2018**

Turnover	1,000,000
Cost of sales	<u>(700,000)</u>
Gross profit	300,000
Administrative expenses	<u>(199,000)</u>
Operating profit	101,000
Interest	<u>(1,000)</u>
Profit before tax	100,000
Tax	<u>(39,000)</u>
Profit after tax	<u>61,000</u>
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**Additional information:**

- Administrative expenses included depreciation of Sh. 40 million
- During the year there had been sales of freehold property for Sh. 30 million. The assets had originally cost Sh. 50 million and had a net value of Sh. 20 million.
- Dividends paid during the year were Sh. 16 million.

**Required:** Statement of Cash flow for the year ended 31 March 2018. (20 marks)

**QUESTION FOUR**

- Briefly explain the deficiencies of using ratio for analysis of a business enterprise. (4 marks)
- The following are Faida Limited comparative financial statement for year ended 31 March 2018 and 2017 respectively.

Income statements for the year ended 31 March 2018

	<b>2018</b>	<b>2017</b>
	Sh. "000"	Sh. "000"
Sales	144,000	140,000
<b>Cost of sales:</b>		
Opening inventory	28,000	3,200
Purchases	<u>124,000</u>	<u>121,600</u>
	152,000	124,800
Closing inventory	<u>(32,000)</u>	<u>(4,800)</u>
	<u>120,000</u>	<u>120,000</u>
Gross profit	24,000	20,000
Distribution costs	7,200	2,800
Administrative expenses	<u>8,160</u>	<u>9,500</u>
	<u>(15,360)</u>	<u>(12,300)</u>
Profit for the year	<u>8,640</u>	<u>7,700</u>
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Statement of financial position as at 31 March 2018

	2018	2017
Assets	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Freehold property	20,000	14,000
Fixtures, fittings and equipment	21,750	13,840
Motor vehicles	<u>12,000</u>	<u>6,000</u>
	<u>53,750</u>	<u>33,840</u>
<b>Current assets</b>		
Inventories	32,000	4,800
Accounts receivables	28,800	11,200
Bank balances	<u>8,950</u>	<u>11,360</u>
	<u>69,750</u>	<u>27,360</u>
Total assets	<u>123,500</u>	<u>61,200</u>
<b>Capital and liabilities</b>		
Capital	108,000	30,800
Account payables	<u>25,500</u>	<u>30,400</u>
Total capital and liabilities	<u>123,500</u>	<u>61,200</u>

**Additional information:**

1. All sales are on credit

**Required:**

- (i) Calculate any comparative ratios of profitability, liquidity, efficiency and gearing for the company. (8 marks)
  - (ii) Comments on Juhudi Limited's Liquidity, efficiency, profitability and gearing positions of the company. (8 marks)
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