

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

MBA 803: FINANCIAL ACCOUNTING

EXAMINATION 2012/13

BUSIA LEARNING CENTRE

INSTRUCTION: CHOOSE ANY FOUR QUESTIONS

Question one

The following information relates to Kebabs' Ltd, for the year ended 31st March 2010

Balance sheet as at 31st March 2010

Sh		sh	
Cash	840,000	Trade creditors	860,000
Debtors	640,000	Notes Payable (9%)	840,000
Stock	2,080,000	Long term debt (10%)	1,600,000
Net equipment	<u>1,600,000</u>	Shareholders' equity	<u>1,500,000</u>
	<u>4,800,000</u>		<u>4,800,000</u>

Income statement for the year ended 31st March 2010

	Sh	Sh
Sales		6,000,000
Less cost of sales		<u>3,600,000</u>
		2,400,000
Less selling expenses	600,000	
Administrative & General expenses	1,120,000	
Interest charges	<u>235,000</u>	<u>1,955,000</u>
Profit before taxation		444,400

Taxation	<u>177,760</u>
Net profit	<u>266,640</u>

All sales are net and on credit

The following industry ratios are also prepared to you

Industry averages

Current ratio 2.5 times

Acid test ratio 1.1 times

Stock turnover ratio 2.4 times

Total assets turnover ratio 1.4 times

Times interest earned ratio 3.5 times

Net profit ratio margin 4.0 times

Return on investment 5.6 times

Total assets to shareholders equity 3.0 times

Return on shareholders' equity 16.8 times

Required

- a) Calculate the ratios shown for Kababs Ltd and present them in a columnar form along the industry average (4 mks)
- b) Comment on the following about Kababs ltd in relation to the industry averages.
 - i. Liquidity position(2 mks)
 - ii. Financial risk (2 mks)
 - iii. Overall performance (2mks)
- c) Explain the main limitations of financial statements. What safeguards can be provided against the preparations of false statements. (10 mks)

Question Two

Messrs Assam transporters make up their accounts on 31st annually. At 31st December 2010 their fleet of Lorries was as follows:

Vehicle	Road Star	Road King	Road Master
Cost	Sh. 3,000,000	3,600,000	4,800,000
Accumulated Depreciation (Sh)	2,250,000	1,800,000	2,400,000

Depreciation was charged at 25% p.a. on straight line method, a full year's depreciation being charged in the year of acquisition and none on disposal.

They decided to modernize their fleet and following transactions took place.

1. On 31st march 2011 purchased lorry "Road Finder" for Sh. 600,000 giving lorry "Road Star" in part exchange value Sh. 1,200,000
2. On 30th April 2011 purchased lorry "Road Eagle" for Sh. 6,000,000
3. On 30th June 2012 sold "Road King" for 750,000 and purchased 'Road Hawk' for Sh. 3,600,000
4. On 31st July, 2012 a second hand lorry 'Road worth' was purchased for Sh. 1,680,000.

You are required to prepare

- i. Motor Lorries A/c, lorry Disposal A/c,
- ii. Depreciation Provision Account and to
- iii. Show the items in the profit and loss account for the year ended 31st December 2011 and 2012
- iv. and also account as appearing in the balance sheet on those dates (20 mks)

Question Three

- a. It is said that more and more companies are practicing creative or innovative accounting of data. What do you understand by these terms? Do they militate against any accounting concepts and conventions? Give an example of creative accounts?(6 mks)
- b. Discuss the meaning and significance of the following(6 mks)
 - i. The going concern concept
 - ii. The money measurement concept
 - iii. The business entity concept
 - iv. Explain what you understand by the term depreciation. Discuss the main objectives of providing depreciation (8 mks)

Question Four

- a) Explain the liquidity –profitability trade off which a business enterprise may be required to consider in its financial management policies (4 mks)
- b) What is agency relationship in context of public limited company and briefly explain how this arises? Discuss the methods that can be used by a company to resolve the agency conflicts between managers and shareholders.(8 mks)
- c) Explain the various business organizations that exists in your locality, their features, advantages and disadvantages(8 mks)

Question Five

- a) Compare and contrast the LIFO and FIFO methods of inventory valuation (8 mks)
- b) From the following information extracted from the books of Mwema at the close of the trading period ended 31st march 2010. Prepare trading profit and loss Account and balance Sheet as at that date after giving effect to the under mentioned adjustments.

	Sh
Capital on 1-4-2010	500,000
Stock 1.4.10	80,000
Purchases	200,000
Sales	800,000
Returns inwards	15,000
Wages	4,000
Advertisement	69,000
Premium	55,000
Interest on Smith's loan	3,000
Withdrawals	30,000
Office expenses	80,500
Business premises	550,000
Furniture and Fixture	25,000
Bills payable	25,000
Bill receivable	35,000
Debtors	200,000
Creditors	158,000
Packing Machinery	45,000
Smith's Loan (Dr) @10% on 1.4.10	50,000
Investment	30,000
Cash	2,500
Bank	35,000

Adjustments

- i. Stock in hand on 31st march 2005 Sh. 70,000
- ii. Premium is for three years paid in advance on 1st April 2010.
- iii. Interest on capital to allowed at 5% for the year
- iv. Interest on drawing to be charged to him as ascertained for the year Sh. 800
- v. Sh. 50,000 of the advertising expenses are to be carried forward.
- vi. Stock valued at 30,000 destroyed by fire on 25.3.2010 but insurance Co. admitted a claim of Sh. 20,000 only paid it on 25.4.2005
- vii. The manager is entitled to a commission of 10% of the net profit calculated after charging such commission
- viii. Included in sales is an amount of Sh. 100,000 representing goods on 'sale or return' the customer still having the right to return the goods. The goods were invoiced charging a profit of 20% on sales.
- ix. The stocks include materials worth Sh. 10,000 for which bill had not been received and therefore not yet accounted for.

Question Six

- a) Discuss how far the concept of income follows the accounting conventions. (6 mks)
- b) Discuss LIFO and FIFO methods of inventory valuation during market fluctuations(6 mks)
- c) The financial year of Mr. Mwengei ends on 31st March 2009 but the stock on hand was physically verified only on 7th April, 2009.
You are required to determine the value of closing stock at cost as verified on 31st, March, 2009 from the following information.
 - i. The stock (valued at cost) as verified on 7th April 2009 was Sh. 15,400
 - ii. Sales have been entered in the sales day book only after dispatch of goods and sales returns only on receipt of the goods
 - iii. Purchases have been entered in the purchase Day book on receipt of purchase invoice irrespective of the date of receipt of goods.
 - iv. Sales as per the sales day book for the period 1st April 2009 to 7th April 2009 (before actual verification) amounted to Sh. 6,880 of which goods of sale value of Sh. 1,200 had not been delivered at the date of verification
 - v. Purchases as per Purchase day book for the period 1st April 2009 to 7th April 2009 (before actual verification) amounted to Shs. 5,800 of which goods for purchases of Sh. 1,500 had not been received at the date of verification and goods for purchases of Sh. 2,000 had been received prior to 31st March 2009.
 - vi. In respect of goods costing Sh. 5,000 received prior to 21st march 2008, invoices had not been received until the date of verification of stocks.
 - vii. The gross profit is 25% on sales (8 mks)

