

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE
& TECHNOLOGY**

KISUMU CAMPUS

(SEPTEMBER – DECEMBER 2022)

MBA 803: FINANCIAL ACCOUNTING

INSTRUCTIONS:

- 1. Answer ANY four questions**
- 2. All questions carry equal marks**
- 3. Show your workings clearly**

QUESTION ONE

The following information was extracted from the books of Kobala Ltd. for the year ended 30th June 2019 and 2018.

	30 th June 2019		30 th June 2018	
	Sh '000'	Sh '000'	Sh '000'	Sh '000'
Fixed Assets:				
Land at cost		2,450		1,450
Buildings at cost	1,350		1,350	
Less: Provision for depreciation	<u>(75)</u>	1,275	<u>(50)</u>	1,300
Plant and machinery	3,522		3,000	
Less: Provision for depreciation	<u>(522)</u>	3,000	<u>(300)</u>	2,700
Investment at cost		<u>850</u>		<u>800</u>
Total fixed assets		7,575		6,250
Current Assets:				
Stocks		2,600		1,600
Debtors		1,150		1,450
Cash and bank balances		<u>25</u>		<u>950</u>
		<u>3,775</u>		<u>4,000</u>
Current Liabilities:				
Creditors		2,500		1,600
Dividends		<u>530</u>		<u>400</u>
Total current liabilities		(3,030)		(2,000)
Net Current Assets		<u>745</u>		<u>2,000</u>
Net Assets		<u>8,320</u>		<u>8,250</u>
Financed By:				
Share capital:				
Ordinary shares of Sh.10 each		3,200		3,000
12.5% Preference shares Sh20 each		2,050		1,250
10% Redeemable preference shares (Sh.100 par)		500		1,000
Reserves: Share premium		470		300
Capital redemption reserve		300		-
General reserve		300		500
Profit and Loss account		<u>530</u>		<u>320</u>
Total shareholder funds		7,350		6,370
7% Debentures		<u>970</u>		<u>1,880</u>
		<u>8,320</u>		<u>8,250</u>

The following additional information is available for the year:

- i) Land was purchased by issuing 40,000 12.5% preference shares of Sh20 at par fully paid at a premium of 25%.
- ii) Half of the redeemable preference shares were redeemed at Sh.110. The premium was paid out of share premium account. For this purpose, 20,000 ordinary shares were issued fully paid for cash at a premium of 10%. The capital redemption reserve was created out of transfer from general reserve.
- iii) A plant which had cost Sh.95,000 was sold for Sh.35,000. Depreciation on the plant at the time of disposal was Sh.78,000.
- iv) 7% Sh1,000,000 debentures were redeemed for Sh.900,000.

Required:

A cash flow statement for the year ended 30th June 2019.

(15 Marks)

QUESTION TWO

The following information was extracted from the financial statements of Tana Ltd. and Athi Ltd. in respect of the year ended 30th September 2019:

Income statement extracts for the year ended 30th September 2019:

	Tana Ltd.	Athi Ltd.
	Shs. '000'	Shs. '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 30th September 2019:

	Tana Ltd.	Athi Ltd.
	Shs. '000'	Shs. '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	44,000

Current liabilities	98,000	108,000
Long-term loan	33,000	-
Shareholders' funds	197,000	157,000

Required:

- (a) For each company, compute the following 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) Debt equity ratio **(2 marks)**
- (b) (i) On the basis of the ratios computed above, comment on the overall performance of Tana Ltd. and Athi Ltd. and advise on the firm which would provide a better investment. **(2 marks)**
- (ii) Explain the possible shortcomings of relying on your analysis in (a) above. **(3 marks)**

QUESTION THREE

- (a) Explain the meaning of each of the following accounting concepts, giving in each case, an example of the application:
- (i) Materiality **(3 marks)**
 - (ii) Substance over form **(3 marks)**
 - (iii) Money measurement **(3 marks)**
- (b) Explain whether revenue may be recognized in the following circumstances in respect of sales made by a business entity:
- (i) Goods have acquired by the business entity which it confidently expects to resell very quickly **(2 marks)**
 - (ii) A customer places an order for goods on a firm. **(2 marks)**
 - (iii) Goods are delivered to the customer's premises **(2 marks)**

QUESTION FOUR

- a) “Qualitative characteristics are the attributes that make information provided in financial statements useful to users.” Explain the four main qualitative characteristics of financial statements with reference to shareholders of a company. **(4 marks)**
- b) Explain the accounting theory with the help of theoretical framework **(5 marks)**
- c) Discuss the problems created by regulating Accounting Profession. **(6 marks)**

QUESTION FIVE

The following balances were extracted from the books of Graca Traders Ltd.as at 30th September 2022:

	Sh
Ordinary shares of Sh.20 each. Fully paid	600,000
8% preference shares Sh.20 each. Fully paid	100,000
Share premium account	80,000
6% loan stock	100,000
Trade creditors	148,000
Trade debtors	330,000
Sales	4,800,000
Purchases	4,220,000
Discounts allowed	5,000
Discounts received	13,000
Freehold buildings at cost	500,000
Fixtures and fittings at cost	640,000
Provision for depreciation on:	
Freehold buildings	50,000
Fixtures and fittings	256,000
Stock 1 st October 2021	420,000
Returns outwards	80,000
Establishment expenses	130,000
Administration expenses	56,000
Selling and distribution expenses	167,000
Bad debts written off	4,000
Provision for doubtful debts	18,000

Retained profit 1 st October 2021	362,000
Goodwill	200,000
Bank overdraft	65,000

Additional information available:

1. Closing stock was valued at Sh.560,000.
2. The company paid the interest on the loan stock for the year, ended 30th September 2022 on 15th October 2022 and establishment expenses prepaid as at 30th September 2018 amounted to Sh.4,000.
3. The provision for doubtful debts as at 30th September 2022 is to be set at 5 % of trade debtors.
4. Administration expenses accrued at 30th September 2022 amounted to Sh.7.000
5. The trade debtors' balance includes Sh. 10,000 due from Salim who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
6. Company's directors propose that the preference share dividend be paid and a dividend of 10% on the ordinary shares be paid.
7. Depreciation is provided annually on reducing balance method of non-current assets held at the end of the financial year at the following rates:

Freehold buildings	8%
Fixtures and fittings	10%

Required:

- (i) Income statement for the year ended 30th September 2022 of Graca Traders Ltd. **(10 marks)**
- (ii) Financial position statement as at 30th September 2022 of Graca Traders Ltd. **(5 marks)**

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MASTERS IN BUSINESS ADMINISTRATION (MBA) COURSE

MBA 803: FINANCIAL ACCOUNTING

COURSE OUTLINE

1. Course Purpose

The course aims to develop the ability of the student to think analytically and critically, using financial and accounting data, to enable them make informed decisions. The thrust of the course is on fundamental concepts and on analysis of the challenges that emerge in the application of the concepts in summarizing and communicating business information. Accounting information is appropriately presented as a tool for aiding decision making by various stakeholders.

2. Expected learning Outcomes

The student examines the nature of financial accounting so that at the end of the course they are able to:

- Appreciate financial accounting contribution to the socio-economic decision making process.
- Develop thorough grasp of the accounting information processing systems and how to model these to ever changing business situations.
- Design the balance sheet and the profit and loss statements and interpret correctly their underlying significance.
- Accounting data as a basis for managerial decisions
- Apply financial analysis technique to their own organization
- Implement business strategy supported by finance and accounting information.

3. Learning and Teaching Methodologies

Lectures, Tutorials, Case studies, Group discussions, Presentations

4. COURSE ASSESSMENT

- The final written examination and Continuous Assessment Tests and Class Assignments shall account for 60% and 40%, respectively of the final mark. The pass mark shall be 50%.

5. COURSE TOPICS

I. INTRODUCTION TO ACCOUNTING

- Overview: nature and scope of accounting.
- The objectives of accounting
- End-users of financial reports and their information needs
- The various branches of accounting

II. FINANCIAL ACCOUNTING THEORY: A CONCEPTUAL FRAMEWORK

- Introduction to accounting theory

- Need for a conceptual framework
- Qualitative characteristics of accounting information
- Recognition and measurement in accounting
- Accounting postulates, assumptions, bases, principle, concepts, conventions and standards.

III. RECORDING ACCOUNTING TRANSACTIONS AND SUMMARISING ACCOUNTING DATA

- The accounting cycle
- The accounting information system
- Business transactions, source documents and double entry framework
- Journal, ledgers and the trial balance

IV. BASIC FINANCIAL STATEMENTS

- The income statement (profit and loss account)
- The balance sheet (statement of financial position)
- The cash flow statement (statement of change in financial position)

V. FINANCIAL STATEMENTS: ANALYSIS AND INTERPRETATION

- Objectives in the analysis of financial statements
- Techniques of analysis
- Limitations of financial statement analysis.

VI. PERIODIC MEASUREMENT AND YEAR-END ADJUSTMENTS

- Cash versus accrual basis accounting
- Accrual and deferral of income and expenses
- Losses in assets values
- Stock adjustments.

6. CORE TEXTS:

- Literature on the subject abounds and extensive reading is imperative. Some of the references are included below.
 - i. Introduction to Accounting for Business Studies- P.P. Langely & G.S. Hardern (4th Edition), Butterworth & Co, 1985.
 - ii. Advanced Financial Accounting, N.D. Nzomo, Kenya Literature Bureau, 1992.
 - iii. Advanced Financial Accounting, R. Lewis & D. Pendrill (5th Edition) Pitman , 1996.
 - iv. Accounting Theory and Practice, Glautier, M.W.& B. Underdown, ELBS/Pitnan (4th Edition).
 - v. Accounting Principles, Hermason R.H., Edwards J.D. and Maher M.W., (5ⁿ Ed), Irwin, 1992.
 - vi. Accounting in Business Decisions- Black, Champion & Miller (Adison Wesley).
 - vii. Business Accounting 2, Frank Wood & Alan Sangster, (8th ed. 1999), Prentice Hall

Course Lecturer: Dr. Daniel Wayongah.