

JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

MASTERS OF BUSINESS ADMINISTRATION

TIME: 3.00 HOURS

UNIVERSITY EXAMINATION

COURSE CODE: MBA 803

ACADEMIC YEAR OF STUDY: 2018/2019

COURSE TITLE: FINANCIAL ACCOUNTING

DATE:

INSTRUCTIONS:

- 1. Answer ANY FOUR Questions**
 - 2. Candidates are advised not to write on the Question paper**
 - 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**
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QUESTION ONE

(a) You are the financial controller of Kisumu Ltd , a listed company which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The year end of Kisumu Ltd is 31 December and its functional currency is the Kshs. Your managing director, who is not an accountant, has recently prepared a list of questions for you concerning current issues relevant to Kisumu Ltd :

You will be aware that we intend to open a new retail store in a new location in the next few weeks. As you know, we have spent a substantial sum on a series of television advertisements to promote this new store. We paid for advertisements costing Kshs.800,000 before 31 December 2018. Kshs.700,000 of this sum relates to advertisements shown before 31 December 2018 and kshs.100,000 to advertisements shown in January 2019. Since 31 December 2018, we have paid for further advertisements costing kshs.400,000. I was chatting to a colleague over lunch and she told me she thought all these costs should be written off as expenses in the year to 31 December 2018. I don't want a charge of Kshs.1.2 million against my 2019 profits! Surely these costs can be carried forward as intangible assets? After all, our market research indicates that this new store is likely to be highly successful. Please explain and justify the treatment of these costs of Kshs.1.2 million in the financial statements for the year ended 31 December 2018.

Required:

Provide answers to the issues raised by the managing director. **(10 marks)**

(b) Suppose you make an investment of Kshs.100,000. This first year the investment returns 12%, the second year it returns 6%, and the third year in returns 8%. How much would this investment be worth, assuming no withdrawals are made? **(5marks)**

QUESTION TWO

(a) Identify and discuss the emerging themes that are affecting the way cost accounting is practised. **(8 marks)**

(b)Mr Wilson has been the manager of Bondo Tyres Ltd for the last 12 years.Recently ownership of the company changed hands and the new owners are conducting an audit of the financial records. The audit team has been unable to reproduce financial reports that were prepared by Ms Delloite Ltd .

While there is no evidence of wrongdoing, the auditors are concerned that the discrepancies might contribute to poor decision.

Required : Identify and explain four qualitative characteristics of a sound accounting information system (AIS) (7marks)

QUESTION THREE (15marks)

	Dr Kshs.('000')	Cr Kshs. ('000')
Ordinary shares (kshs.)		310,000
10% preference shares		100,000
10% debenture 2015		120,000
Profit for year ended 30/04/2018		137,000
Profit for year ended 30/04/2017		120,000
Stock	250,000	
Premises	300,000	
Plant and machinery	200,000	
Motor vehicles	70,000	
Office equipment	60,000	
Depreciation provisions:		
Premises		118,000
Plant and machinery		100,000
Motor vehicles		60,000
Office equipment		50,000
Debtors	445,000	
Creditors		170,000
Provision for bad and doubtful debt		16,000

The above trial balance has been taken from Crater Ltd on 30 April 2018, after the preparation of the income statement for the year.

Required :Prepare a statement of financial position taking into account the following:

- (i) Provision of corporation tax of Kshs.40,000
- (ii) The preference share dividend is to be paid
- (iii) An ordinary share dividend of 15% is declared

QUESTION FOUR

Unilever is well known around the world for its brands. On any given day, two billion people use Unilever products to look good, feel good and get more out of life. The company manufactures more than 400 brands focused on health and wellbeing. Many Unilever brands includes and not limited to Royco,Geisha,Sunlight.,Knorr.Lifebuoy.Axe ,Vim and are respected around the world and have become household names. The finance team developed a financial planning process to support their role in driving the success of these brands and others.

Unilever achieved a strong set of financial results in 2017. Underlying sales growth in 2017 was 6.5%, up from 3.5% in 2015, while 60% of Unilever categories are growing share despite challenging market conditions and a difficult economic climate. Its strategy is to focus on volume growth and strengthening the competitive position of the company's brands. Commenting on the company's performance, CEO Paul Polman said: "In 2017 we have made significant progress in the transformation of Unilever to a sustainable growth company despite difficult markets and an unusual number of significant external challenges. Our overall performance was driven by our growth in emerging markets and the Home Care and Personal Care categories. We invested heavily in our brands and exit the year with positive momentum. In Foods, whilst price increases have impacted volumes, we have grown in line with our markets and gained share in many of our key businesses."

In the past several years Unilever also enhanced their position in attractive, high-growth categories and purchased a portfolio of desirable brands through company acquisitions, joint ventures or Greenfield investments.

Case Context

You have been recently appointed to a start up project as a result of one of the activities mentioned above. You are facing demands on your time from your colleagues, boss and subordinates. At the same time you are receiving requests from headquarters and specialized support functions including Tax, Treasury, and Insurance. You constantly have to prioritize and there is danger that important tasks get delayed, or worse, never get done. Since Financial Planning and Reporting are one of the major activities you are responsible for you must quickly familiarize yourself with these Unilever

financial processes. You are given seven areas of importance to focus your activities on . The areas are:

1. Local company chart of accounts
3. Financial reporting routine
4. Key performance measurements
5. Financial budgeting system
- 6.Capital planning process
7. Inventory valuation and cost of goods sold

For each of the activities above you are given the objectives and the rules. You must identify the list of actions required and identify any potential obstacles or challenges you may face and as a matter of urgency would wish that you dwell on item no.2 as plan to present the other six later on.

Financial and Management Reporting Routine

Objective

One of the responsibilities of a financial manager is to report accurate financial results within predetermined deadlines while minimizing the disruption to the company and your staff.

Rules

- 1.You must ensure all management and financial reports are submitted accurately and in a timely manner. This includes the the position statement, income Statement and cash flow statement.
2. You must ensure all reported financial results reconcile with local financial records .

Questions for discussion

1. What are the important issues in determining financial and management reporting requirements?
2. How do you plan to ensure the deadlines are met?
3. Who are the important groups to liaise with if there are any reporting issues?

(15 marks)

QUESTION FIVE

- (a) Briefly explain what sustainability means for organisations. Using examples, describe the three main elements of sustainable business practices **(6 marks)**.
- (b) Suppose you make an investment of Kshs.100,000. This first year the investment returns 12%, the second year it returns 6%, and the third year in returns 8%. How much would this investment be worth, assuming no withdrawals are made? **(9marks)**

QUESTION SIX

(a) As a student accountant you work in the finance department of Bondo Ltd and as part of your role you are aware that Bondo Ltd is likely to win a major new contract that is likely to significantly improve profits. A friend says that they have heard a rumour about Bondo Ltd and asks you for information.

Discuss the ethical issues this situation presents. (**5marks**)

(b) Briefly discuss the difference between financial and management accounting (**2marks**)

(c) Write a memorandum for circulation to all the junior members of the credit control department that highlights FIVE key indicators of customer solvency problems, which can be identified from published financial statements. (**8 marks**)