

Jaramogi Oginga Odinga University of Science and Technology

University Examination

KISUMU CAMPUS

1st Year 1st Semester

Degree of Masters of Business Administration

MBA 803: FINANCIAL ACCOUNTING

DECEMBER 2018

TIME: 3 HOURS.

INSTRUCTION

ANSWER ANY FOUR QUESTIONS

QUESTION ONE

The following information was extracted from the books of ABC Ltd.
The Trading and Profit and Loss Account for the year ended 31st December, 2001.

Sales - cash		600,000
-Credit		<u>1,200,000</u>
		1,800,000
Less Cost of Sales		
Opening Stock	420,000	
Purchases	<u>1,320,000</u>	
	1,740,000	
Less Closing Stock	<u>300,000</u>	
		<u>1,440,000</u>
Gross		360,000
Less Expenses		
Depreciation	26,200	
Directors Emoluments	30,000	
General expenses	40,000	
Interest on loans	<u>8,000</u>	
		(<u>106,000</u>)
Net profit before tax		254,000
Less Corporation tax @50%		<u>127,000</u>
Net profit after tax		127,000
Less appropriations		
Preference dividends	9,600	
Ordinary dividends	<u>20,000</u>	(<u>29,600</u>)
Retained Profit		<u>97,400</u>

XYZ Ltd.
Balance Sheet
As at 31st December 2001.

Fixed Assets		427,800
Current Assets		
Stock	300,000	
Debtors	71,800	
Others	<u>40,000</u>	
	<u>411,800</u>	
Current Liabilities		
Creditors	120,000	
Provision for corporation tax	127,000	
Proposed dividend	<u>29,600</u>	
	<u>276,600</u>	
Working capital		<u>135,200</u>
		<u>563,200</u>
<u>Financed by</u>		
Share capital		
Ordinary share capital	200,000	
Preference share capital	<u>120,000</u>	
		320,000
Revenue reserves:		
Retained profit b/f	65,600	
Retained profit c/f	<u>97,400</u>	
		163,000
10% Loan Finance		80,000
		<u>563,000</u>

Required

a) Compute the following ratios:

- i. Current Ratio **(2 Marks)**
 - ii. Acid Test Ratio **(2 Marks)**
 - iii. Gross profit margin **(2 Marks)**
 - iv. Net profit margin **(2 Marks)**
 - v. Return on capital employed **(2 Marks)**
- b) List FIVE limitations of ratio analysis. **(5 Marks)**

QUESTION TWO

The following trial balance was extracted from the books of Mr Kamau, wholesaler, as at 31st December 2008.

	<u>Sh.</u>	<u>Sh.</u>
Capital		902,925
Drawings	105,000	
Trade debtors and creditors	157,500	52,500
Sales		746,340
Returns inwards and outwards	12,635	19,145
Purchases	366,520	
Wages		112,000
Salaries	52,500	
Discount allowed and received	8,680	14,910
Provision for depreciation:-		
Fixtures		10,150
Vehicles		278,000
Bank	90,405	
Cash at hand	4,400	
Lighting and heating	16,520	
Rates	8,680	
Premises (cost)	267,225	
Fixtures (cost)	53,000	
Vehicles (cost)	556,000	
Stationery	5,460	
Postages and telephone	7,000	
Insurance	2,100	
Provision for bad debts		7,000
Motor vehicles expenses	13,510	
Bad debts	2,520	
Stock in trade on 1 st January, 2005	221,690	
Bank loan 15% interest p.a		35,000
Interest on loan for 6 months		<u>2,625</u>
	<u>2,065,970</u>	<u>2,065,970</u>

The following information is provided:-

- 1 Stock in trade on 31 December 2008 was Sh.217, 350.
- 2 Depreciation is to charged on fixtures at 5% on cost and motor vehicles at 20% on reducing balance. No depreciation was charged on premises.
- 3 Only three quarters of rates and lighting and heating applies to the business.
- 4 Rates prepaid as at 31st December 2008 amounted to Sh. 2,240.
- 5 Half year's interest on loan has been paid.
- 6 Prepaid insurance is Sh. 420. Provision for bad debts is to be raised to Sh. 8,750.

- 7 An invoice for goods purchased on 20th December 2008 for Sh. 3,500 had been omitted.
- 8 Mr Kamau took Sh. 1,400 of goods (at cost) for his own use.

Required:-

- (a) Trading and Profit and loss Account for the year ended 31st December 2008
(10 Marks)
- (b) Balance sheet as at 31st December, 2008. **(5 Marks).**

QUESTION THREE

- a) Explain five users of accounting information **(5 Marks)**
- b) Describe the accounting cycle and list the sequence procedures involved in the accounting cycle **(10 Marks)**

QUESTION FOUR

- a)
- i. Define the term depreciation. **(1 Mark)**
 - ii. What is the purpose of provision of depreciation? **(1 Mark)**
 - iii. List and briefly explain the three methods of providing depreciation. **(3 Marks)**
- b) John Safari commenced transportation business on 1 January 2005. On that date, he purchased a motor vehicle for Sh.6, 000,000 in cash. On 1 January 2005, he purchased another motor vehicle for Sh.8, 000,000 in cash. John Safari provides depreciation at the rate of 25% per annum on straight line method.

Required:

The Motor Vehicle Account, Depreciation Account, Provision for Depreciation Account and Bank Account for the three years ended 31st December 2007.

(10 Marks)

QUESTION FIVE

- a) Define conceptual framework underlying financial accounting. **(5 Marks)**
b) List the usefulness of a conceptual framework of accounting. **(5 Marks)**
c) List and explain the users of financial statements. **(5 Marks)**

QUESTION SIX

- a.) Explain briefly the following basis of accounting:
i.) Accrual Basis of Accounting **(3 Marks)**
ii.) Cash Basis of Accounting **(2 Marks)**
- b.) The following is an extract of the financial statement of XYZ Ltd. for the years 2009 and 2010.

Balance Sheet as at 30 June

	2009 <u>Sh'000'</u>	2010 <u>sh'000'</u>
Non- current Assets	72,500	75,000
Current Assets		
Inventory	24,500	26,500
Receivables	34,000	36,500
Cash at bank	<u>1,250</u>	<u>2,250</u>
	<u>59,750</u>	<u>65,250</u>
	<u>132,250</u>	<u>140,,250</u>
Capital and Reserves		
Issued Share Capital	50,000	50,050
Reserves	26,100	32,600
Non-current Liabilities		
10% Bank Loan	20,000	21,500
Corrent Liabilities		
Trade Payables	31,900	31,000
Taxation	2,250	29,950
Dividends	<u>2,000</u>	<u>2,150</u>
	<u>132,250</u>	<u>140,250</u>

Profit and Loss Account for the year ended 30 June 2010

Sale revenue	<u>195,000</u>
Profit from the Operations	13,750
Net interest costs	<u>2,150</u>
Profit before taxation	11,600
Income Tax Expenses	<u>2,950</u>
Profit after tax	8,650
Dividends	<u>2,150</u>
Net Profit for the period	<u>6,500</u>

NOTE: Depreciation charge for the year ksh. 6 million, non – current Assets disposed in the year proceeds ksh.0.3 million, depreciation to date ksh.0 .75 million, cost ksh 0.5 million.

REQUIRED

Prepare cash flow statement as per IAS 7 for XYZ Ltd. for the year 2010.

(10 MARKS)

School of Business and Economics
Jaramogi Oginga Odinga University of Science and Technology (KISUMU)
Masters of Business Administration
MBA 803: Financial Accounting
Course Outline: Sept– Dec 2018

Instructor: Allan Okwenda Asola

Class meets: Wednesday

Time: 5.30 pm -8.30pm

Room: LR 3

Course Description:

The general objective of this course is to equip students with thorough knowledge on the principles of Accounting, analysis and interpretations of financial Statements. These will be done through lectures, class discussions, assignments and continuous assessment tests (CATs)

Expected Learning Outcomes

After studied this course, the students will be able to understand
Users of Financial Accounting information
Depreciation Accounting
Conceptual framework for Financial Accounting and Reporting
Generally Accepted Accounting Principles (APP)
Cash flow and Income measurement
Information Processing and Accounting cycle
Adjusting entries
Financial Ratio Analysis

- | | WEEK |
|---|--------------------|
| 1. Users of Financial Accounting information | One & Two |
| <ul style="list-style-type: none">• Shareholders• Creditors• Banks• Government• Employees | |
| 2. Conceptual framework for Financial Accounting and Reporting | Three & Four |
| <ul style="list-style-type: none">• Objective of financial reporting and financial elements.• Qualitative characteristics of accounting information.• Elements of financial statements of business enterprise.• Recognition and measurement in financial statements of business enterprises.• Evaluation of conceptual framework project. | |
| 3. Generally Accepted Accounting Principles (APP) | Five , Six & Seven |
| <ul style="list-style-type: none">• Business entity principle• Continuity or Going-Concern principle• Revenue Realization principle• Valuation principle | |

- Matching principle
 - Disclosure principle
 - Standards overload and economic consequences of accounting standards
4. Cash flow and Income measurement Eight, Nine & Ten
- Accrual Basis of Accounting
 - Cash Basis of Accounting
 - Accounting Vs Accounting Approach
5. Information Processing and Accounting cycle Eleven
- Recording Business Transactions and events
 - Supporting Documents
 - Double Entry System
 - Accounting period
 - Accounting cycle
 - Journals
 - Ledger
 - Trial balance
 - Income statement
 - Balance sheet
 - Cash flow statements
6. Adjusting entries Twelve
- Apportionment of recorded costs
 - Apportionment of recorded revenue
 - Accrual of unrecorded expenses
 - Accrual of unrecorded revenue
 - Valuation of Accounts Receivable
7. Depreciation Accounting Thirteen
- Straight line method
 - Reducing balance method
 - Fixed Assets Disposal Account
 - Provision for Depreciation Account
 - Depreciation Expense Accounts
8. Financial Ratio Analysis. Fourteen
- Profitability Ratios
 - Liquidity Ratios
 - Efficiency Ratios

Course Evaluation Plan

The course will consist of exercises on every topic, assignments, a timed CAT, and final examination.

The marks will be awarded as follows:

Assignments		10%
CAT 1		15%

CAT 2	15%
Final Examination	60%
TOTAL	100%

REFERENCES

Richard Lewis & David Pendrill (2000) *Advanced Financial Accounting*, Prentice Hall

G.A.Lee, *Modern Financial Accounting VNR, Third Edition*, (UK) 1984

A.R. Jennings (1986), *Financial Accounting*, 3rd Ed., D.P. Publications

P. C. Tulsian (2006), *Financial Accounting*, Pearson Education(Singapore) Pte. Ltd

S. P. Jain and K.L. Narang (1979), *Principles of Accounting(Vol.1)*, Kalyani Publishers

NB> Please Consult the Librarian for more E- Resources

SignedLecturer

SignedDean SBE