



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

MASTER OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

DATE: 16/12/2021

TIME: 9.00-12.00 PM

INSTRUCTIONS

1. Answer any FOUR (4) Questions, All Question Carry Equal Marks
2. Give relevant examples to support your answers

QUESTION ONE (25 MARKS)

a) The following transactions happened for RS Corporation in the month of September 2016.

- | | | |
|-------|----|---|
| Sept. | 1 | Stockholders Invested Kshs. 5,000 in his Restaurant services corporation. |
| | 2 | The corporation paid Kshs.500 cash for the store rent. |
| | 5 | The corporation purchased Restaurant supplies of Kshs.1, 000. |
| | 9 | The corporation purchased Kitchen equipment for Kshs.12, 000 paying Kshs. 2,000 in cash and signed a kshs.10, 000 twenty-four months 9% note payable. |
| | 12 | The corporation provided Restaurant services and collected cash of Kshs. 3,000. |
| | 15 | Declared and paid a Kshs. 500 cash dived to stockholders. |

REQUIRED:

Prepare a Balance sheet and Income statement for the month of September 2016 (12 marks)

b) ABC Comparative Balance Sheet

December 31,

(in Kshs)

Assets	2017	2016
Current assets		
Cash	55,000	33,000
Accounts receivable	20,000	30,000
Inventory	15,000	10,000
Prepaid expenses	5,000	1,000
Property, Plant & Equipment		
Land	130,000	20,000
Building	160,000	40,000
Equipment	27,000	10,000
Acc depreciation – building	(13,000)	(5,000)
Acc depreciation – equipment	(3,000)	(1,000)
Total Assets	<u>398,000</u>	<u>138,000</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payables	28,000	12,000
Income tax payable	6,000	8,000
Long term Liabilities		
Bonds payables	130,000	20,000
Shareholder's Equity		
Share Capital	70,000	50,000
Retained Earnings	<u>164,000</u>	<u>48,000</u>
Total Liabilities & Shareholder's Equity	<u>398,000</u>	<u>138,000</u>

Additional Information for 2017

Net Income	145,000
Dividend paid-cash	29,000
Total depreciation expense	9,000
Cash spend on property, plant & equipment	145,000

Equipment with book value of Kshs. 7,000
(cost 8,000, less Acc depreciation 1,000) for
Kshs. 4,000 cash.

REQUIRED:

- i. Determine Net cash provided by operating activities (9 marks)
- ii. 'Objectivity' in accounting reporting is a state of mind and can only be assured if one is seen to be independent'. Identify and discuss the areas of risk on ethics failure by accountants and the limitations of financial statement information. (4 marks)

QUESTION TWO (20 MARKS)

a) The following transactions took place for KOLA Company in the year 2017.

Date	Description	Units	Cost (Kshs)
January 1	Beginning stock	200	6
February 6	Purchases	1000	7
May 17	Purchases	500	9
October 30	Purchases	400	11

A physical stock count done on December 31, 2017 indicated that 800 units were on hand.

The average market value of KOLA products during the year was Kshs. 9 per unit.

Operating costs were estimated at Kshs. 4,000 during the year and KOLA products sold in Japan are always marked at Kshs. 5 on cost.

REQUIRED:

- i. Calculate the number of units sold (2 marks)
 - ii. Compute LIFO income statement (5 marks)
 - iii. Compute FIFO Income statement (5 marks)
 - iv. Advise KOLA which statement they should use if they want to approach a bank for financing since the company is facing liquidity problems. (3 marks)
- b) The following Balance Sheet belongs to a division of KK Motor Company. The directors are concerned about the division's performance and have called for a consultant to undertake financial analysis to tell them what the division is ailing from.

KK MOTOR COMPANY
AUTOMOTIVE DIVISION
Balance Sheet
December 31, 2016 and 2015

(in Millions)

Assets	2016	2015
Current assets	44,703	43,742
Noncurrent assets	<u>71,719</u>	<u>71,702</u>
Total Assets	<u>116,422</u>	<u>115,444</u>
Liabilities and Shareholders; Equity		
Current liabilities	55,027	52,292
Noncurrent liabilities	<u>57,612</u>	<u>64,612</u>
Total Liabilities	112,639	116,904
Total Shareholder's Equity	<u>3,783</u>	<u>(1,460)</u>
Total Liabilities & shareholder's Equity	<u>116,422</u>	<u>115,444</u>
Other Information		
Net Income	(155)	(1,908)
Tax expense	(30)	(175)
Interest expense	1,221	1,323
Available lines of credit	7,100	
Industry Averages		
Current ratio	1.59:1	
Debt to Asset ratio	84.6%	
Times interest earnings ratio	6.38times	

REQUIRED

- i. Evaluate KK Motor's liquidity position using appropriate ratios, and compare to those of industry averages (3 marks)
- ii. Evaluate KK Motor's solvency using appropriate ratios, and compare with those of industry (5 marks)
- iii. Comment on KK Motor's available of lines credit (2 marks)

QUESTION THREE (25 MARKS)

- a) Critically evaluate how qualitative characteristics of accounting information can improve reporting. (8 marks)
- b) During the first week of operations Dankan Company made the following transactions
1. Issued 100,000 shares of Kshs. 11.25/- par value for Kshs. 8,000,000 cash
 2. Borrowed Kshs. 2,000,000 from Cash Bank, signing a 5 year note payable bearing a 12%% interest.
 3. Purchased two semi-trailer trucks for Kshs. 11 million cash
 4. Paid employees Kshs. 12 million for salaries and wages
 5. Collected Kshs. 200,000 for services provided

REQUIRED:

- i. Journalize each of the above transactions (5 marks)
 - ii. Classify each of these transactions by type of cash flow activity. (5 marks)
- c) Single Freight Consignment sells items over the Internet for individuals on a consignment basis. Single receives the items from the owner, lists them for sale on the Internet, and receives a 25 percent commission for any items sold. Single freight collects the full amount from the buyer and pays the net amount after commission to the owner. Unsold items are returned to the owner after 90 days. During 2015, Single had the following information: Total sales price of items sold during 2015 on consignment was Kshs. 2, 000,000; Items returned costed Kshs. 200,000

REQUIRED:

Prepare Profit and Loss statement for Single Freight for year ended 2015 income statement?

(7 marks)

QUESTION FOUR (25 MARKS)

- a) The T accounts below summarize the ledger of Quick Response Catering Corporation at the end of the first month of operations:

<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 35%; text-align: center;">Cash</th> <th style="width: 15%; border-left: 1px solid black;"></th> <th style="width: 35%; text-align: center;">No. 101</th> </tr> </thead> <tbody> <tr> <td>4/1</td> <td style="text-align: right;">10,000</td> <td style="border-left: 1px solid black;">4/15</td> <td style="text-align: right;">450</td> </tr> <tr> <td>4/12</td> <td style="text-align: right;">600</td> <td style="border-left: 1px solid black;">4/25</td> <td style="text-align: right;">1,100</td> </tr> <tr> <td>4/29</td> <td style="text-align: right;">900</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>4/30</td> <td style="text-align: right;">600</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> </tbody> </table>		Cash		No. 101	4/1	10,000	4/15	450	4/12	600	4/25	1,100	4/29	900			4/30	600			<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 35%; text-align: center;">Unearned Revenue</th> <th style="width: 15%; border-left: 1px solid black;"></th> <th style="width: 35%; text-align: center;">No. 209</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td style="border-left: 1px solid black;">4/30</td> <td style="text-align: right;">600</td> </tr> </tbody> </table>		Unearned Revenue		No. 209			4/30	600
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Instructions

- i. Prepare a trial balance at April 30, 2018 (4 marks)
- ii. Prepare a Balance sheet and Income statement (6 marks)
- b) Describe the revenue recognition principle and explain its application in Telkom companies. (6 marks)
- c) Write short notes on: (4 marks)
 - i. Faithful representation of accounting information
 - ii. Historical verses market value accounting
 - iii. Explain what the double entry in accounting means. (5 marks)

QUESTION FIVE (25 MARKS)

- a) An inexperienced bookkeeper prepared the following trial balance that does not balance.

**Big Venture Dreams
Trial Balance
December 31, 2018**

	<u>Debit</u>	<u>Credit</u>
Cash	Kshs. 53,200	
Admission Fees		Kshs. 18,200
Common stock		9,600
Advertising Exp		900
Service Revenue		4,450
Notes Payable	2,500	
Salary Exp	1,200	
Accounts Receivables	450	
Coupon Sales		30,000
Managers salary /	4,500	
Office Equipment		<u>4,500</u>
	<u>Kshs. 61,850</u>	<u>Kshs. 67,650</u>

REQUIRED:

- a) Prepare a correct trial balance, assuming all account balances are normal (5 marks)
- b) Prepare a Balance Sheet and income Statement (10 marks)
- c) The following facts are about a machinery bought for agro- processing by the Narek County. Cost of the asset= Kshs. 10.5 million; Expected economic life = 5 years; Expected salvage value after 5 years = Kshs 500,000. The processing plant is expected to produce 100 million litres of juice at a cost of Kshs 30 and selling price of Kshs. 80 per litre.

REQUIRED:

Compute depreciation using the straight line, double declining balance and units of production. Assuming the plant is purchased using a loan from China, which method do you advice the county government to use (explain to the Governor). (10 marks)