



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

MASTER OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

DATE: 4/3/2021

TIME: 9.00-12.00 PM

INSTRUCTIONS:

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

QUESTION ONE (25 MARKS)

The T accounts below summarize the ledger of Swiss Corporation at the end of the first month of operations:

Cash		No. 101		Unearned Revenue		No. 209	
4/1	10,000	4/15	450		4/29	600	
4/12	600	4/25	1,100				
4/29	900						
4/29	600						
Accounts Receivable		No. 112		Common Stock		No. 311	
4/7	3,200	4/29	900		4/1	10,000	
Supplies		No. 126		Service Revenue		No. 400	
4/4	1,800				4/7	3,200	
					4/12	600	
Accounts Payable		No. 201		Salaries Expense		No. 726	
4/25	1,100	4/4	1,800		4/15	450	

INSTRUCTIONS

- a) Prepare the complete general journal entries (including explanations) from which the postings to Cash were made. (12 marks)
- b) The accountant notifies you that the unearned revenue was an advance posted on 29th April. However, you are informed that, some Kshs. 400 of the revenue has been earned by close of April 30th. Make the adjusting journal entry as at 30th April, and post to the T account. (6 marks)
- c) Prepare a Trial Balance (7 marks)

QUESTION TWO (25 MARKS)

- a) Tofu Products, has purchased a new soybean processor for KShs. 300,000 (shipping and installation included). The processor has a useful life of 5 years and the expected salvage value is KShs. 10,000.

REQUIRED:

- i. What is the depreciation expense for year 3 if the sum-of-years' digits (SYD) depreciation method is used? (9 marks)
- ii. Explain what happens when the company decides to change the salvage value of the asset. (6 marks)
- b) Explain the general principles of revenue recognition and accrual accounting. (10 marks)

QUESTION THREE (25 MARKS)

- a) The following balances were obtained from a trading company as at 31.12.2018

Item	Kshs. ('000)
<i>Building</i>	11,000
<i>Furniture & Fittings</i>	5,500
<i>Motor vehicle</i>	5,800
<i>Stocks</i>	8,500
<i>Account receivables</i>	5,600
<i>Cash in bank</i>	1,500
<i>Account payables</i>	2,500
<i>Share Capital</i>	30,800
<i>Loan</i>	5,000

REQUIRED

- Prepare a balance sheet for the financial year ending December 31,2018. (10 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

Classify each of these transactions by type of cash flow activity (5 marks)

c) “It is often argued that accounting is prone to manipulation, and the reliability of accounting numbers depend on the ethical behavior of accountants. That said, the following two types of accounting are debatable which one produces ‘relevant’ accounting numbers that can inform decision making”.

- i. Distinguish between cash basis of accounting and accrual basis of accounting. (5 marks)
- ii. Which type of accounting referred to above produces ‘relevant’ accounting reports. (5 marks)

QUESTION FOUR (25 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. On average the market for KOLA products during the year occurs at the month of July auction.

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)

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) Kaa & Mondri are accountants for Hotel Resorts. They disagree over the following transactions that occurred during the calendar year 2015.

1. Kaa suggests that equipment should be reported on the balance sheet at its liquidation value, which is \$15,000 less than its cost.
 2. Hotel Resorts bought a custom-made piece of equipment for \$24,000. This equipment has a useful life of 6 years. Hotel Resorts depreciates equipment using the straight-line method. "Since the equipment is custom-made, it will have no resale value. Therefore, it shouldn't be depreciated but instead should be expensed immediately," argues Kaa. "Besides, it provides for lower net income."
 3. Depreciation for the year was \$18,000. Since net income is expected to be lower this year, Kaa suggests deferring depreciation to a year when there is more net income.
 4. Land costing \$60,000 was appraised at \$90,000. Kaa suggests to increase the value of land and also recognized a gain of \$30,000.
 5. Hotel Resorts purchased equipment for \$30,000 at a going-out-of-business sale. The equipment was worth \$45,000. Kaa believes that the following entry should be made.
- Mondri disagrees with Kaa on each of the above situations.

INSTRUCTIONS

For each transaction, indicate why Mondri disagrees. Identify the accounting principle or assumption that Kaa would be violating if his suggestions were used. (10 marks)

QUESTION FIVE (25 MARKS)USB COMPANY
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
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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>
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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:

- a) Determine Net cash provided by operating activities (15 marks)
- b) Describe four enhancing qualitative characteristics of accounting information and state how they affect decision usefulness. (10 marks)