



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SPECIAL/SUPPLEMENTARY EXAMINATION FOR

MASTER IN BUSINESS ADMINISTRATION (FINANCE OPTION)

BAC 813: FINANCIAL ACCOUNTING

DATE: 11/8/2021

TIME: 11.00-1.00 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)

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:

- a) Analyze and journalize the transactions provided. (3 marks)
- b) Prepare a Trial balance properly titled for the business transactions (10 marks)
- c) Prepare a Balance sheet and Income statement for the month of September 2016 (12 marks)

QUESTION TWO (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.

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. (2 marks)
- b) Critically evaluate how enhancing qualitative characteristics of accounting information can improve reporting. (10 marks)

QUESTION THREE (25 MARKS)

a) IVETI Ltd is a manufacturer of joinery products in the timber industry. The company has prepared the following schedule relating to inventory of unsold goods at the end of year:

Type of inventory	Cost	Market Value	Balance sheet
	Kshs.	Kshs.	Kshs.
Raw materials	100,000	62,000	62,000
Work in progress	230,000	155,000	155,000
Finished goods	350,000	392,000	350,000
Total inventory	680,000	609,000	567,000

Required:

- i. Analyze and explain the inventory costing method applied to each category of inventory by IVETI Ltd in arriving at closing inventory figure. Is this cost measurement rule consistent with IFRS or it's an alternative treatment? (6 marks)
 - ii. If IVETI Ltd. applied the costing method to the total inventory, what would have been the closing inventory figure? What is the effect of this cost measurement application on profits and balance sheet? (9 marks)
 - iii. Distinguish between fair value measurement and market value measurements in accounting. Which measurement do you think should be applicable to marketable securities? (5 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)

QUESTION FOUR (25 MARKS)

- a) During the month of December 2017, Lake Company employees earned wages/salaries of Kshs. 60,000. Tax withholdings relating to these wages/salaries were Kshs. 3,500 for NSSF, Kshs. 6,500 PAYE, and Kshs. 2,000 for county income tax. Prepare the December 31, 2017 journal entries for (i) wages expense and wages payable assuming that all December wages will be paid in January 2018 and (ii) the company's payroll tax expense. (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, 2019 and 2018

Assets	(in Millions)	2019	2018
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 (4 marks)
 - ii. Evaluate KK Motor's solvency using appropriate ratios, and compare with those of industry (6 marks)
 - iii. Comment on KK Motor's available of lines credit (2 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 and units of production. Assuming the plant is purchased using a loan from China, which method do you advise the county government to use (explain to the Governor). (10 marks)

QUESTION FIVE (25 MARKS)

- a) 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
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. Compute Free Cash Flow for the company in 2017. Explain the meaning of free cash flow and how USB Company can make use of it. (4 marks)
 - iii. Using cash-based ratios assess the liquidity and solvency position of the company. (6 marks)
- b) The largest current asset on Banet Company balance sheet is short-term investments. The investments cost Banet Kshs. 8.6 million, and the market value is Kshs. 9.0 million. Suppose Banet holds the investment in hope of selling at a profit within a few months. How will Banet classify the investments in the books of accounts? What will Banet report on the Balance sheet at April 30, 2018 and Income statement? Show T- account for short term investments. (6 marks)