



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FIRST YEAR SECOND SEMESTER EXAMINATION FOR

DIPLOMA IN INFORMATION TECHNOLOGY

DIPLOMA IN EDUCATION

BAC 0109/DIT 111: FINANCIAL ACCOUNTING AND MANAGEMENT

DATE:

TIME:

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
- i) The monetary unit concept. (2.5 marks)
 - ii) Substance over form concept (2.5 marks)
 - iii) Matching concept (2.5 marks)
 - iv) Consistent concept (2.5 marks)
- b) Identify and explain the purpose of books of original entry. (5 marks)
- c) P. Muli was recently appointed to the post of investment manager of Masada Ltd. a quoted company. The company has raised Sh.8,000,000 through a rights issue.

P. Muli has the task of evaluating two mutually exclusive projects with unequal economic lives. Project X has 7 years and Project Y has 4 years of economic life. Both projects are expected to have zero salvage value. The cost of capital for the project is 18%. Their expected cash flows are as follows:

Project	X	Y
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Year	Cash flows (Sh.)	Cash flows (Sh.)
1	2,000,000	4,000,000
2	2,200,000	3,000,000
3	2,080,000	4,800,000
4	2,240,000	800,000
5	2,760,000	-
6	3,200,000	-
7	3,600,000	-

Required:

- i) The pay-back period of each project (5 marks)
- ii) The net present value of each project. (5 marks)
- iii) The profitability index for each (5 marks)

QUESTION TWO (20 MARKS)

- a) State the different types of bond covenants which bondholders/ Lenders may impose on shareholders to protect themselves. (10 marks)
- b) Discuss the cause of shareholder management conflict of interest in a company. (10 marks)

QUESTION THREE (20 MARKS)

- a) Briefly explain the following types of errors:
 - i) Error of commission (2 marks)
 - ii) Error of principle (2 marks)
 - iii) Complete reversal of entries (2 marks)
 - iv) Compensating errors (2 marks)
- b) Enter the following in the three-column cash book of an office supply shop. Balance off the cash book at the end of the month and show the discount accounts in the general ledger. (12 marks)

2017

- June 1 Balances brought forward: Cash Shs420; Bank Shs4,940.
- 2 The following paid us by cheque, in each case deducting a 5 per cent cash discount: S Braga Shs820; L Pine Shs320; G Hodd Shs440; M Rae Shs1,040.
- 3 Cash sales paid direct into the bank Shs740.
- 5 Paid rent by cash Shs340.
- 6 We paid the following accounts by cheque, in each case deducting 2.5 per cent cash discount: M Peters Shs360; G Graham Shs960; F Bell Shs400.
- 8 Withdrew cash from the bank for business use Shs400.
- 10 Cash sales Shs1,260.
- 12 B Age paid us their account of Shs280 by cheque less Shs4 cash discount.
- 14 Paid wages by cash Shs540.
- 16 We paid the following accounts by cheque: R Todd Shs310 less cash discount Shs15; F Dury Shs412 less cash discount Shs12.
- 20 Bought fixtures by cheque Shs4,320.
- 24 Bought lorry paying by cheque Shs14,300.
- 29 Received Shs324 cheque from A Line.
- 30 Cash sales Shs980.
- 30 Bought stationery paying by cash Shs56.

QUESTION FOUR

- a) Identify and explain four function of finance manager in profit-oriented firm. M (10 marks)
- b) The following are trial balance for ABC enterprise the period ending 31st December 2017 was as follows:

	Dr	Cr
	Sh '000'	sh '000'
Motor vehicles	3 000	
Furniture	2 500	
Inventory (1.1.17)	2 200	

Purchases	9 000	
Sales		17 500
Returns inwards	800	
Returns outwards		400
Carriage inwards	500	
Rent	900	
Electricity	800	
Salaries and wages	600	
Drawing	400	
Land and buildings	5 000	
Discounts	700	800
Carriage out	400	
Bad debts	600	
Accounts receivable	3 600	
Provision for bad and doubtful debts		300
Accounts payable		2 000
Capital		<u>10 000</u>
	<u>31,000</u>	<u>31000</u>

Additional information

1. Stock as at 31.12.2015 was sh 3,500,000
2. Depreciation is to be provided on- motor vehicle 15%
-furniture 10%
3. Provision for bad and doubtful debts is to be increased by 2% of debtors
4. Unpaid expenses-Motor vehicle expenses sh. 100 000
- electricity sh 200,000
5. 20% of the rent relate to the year 2016
6. Accrued salaries and wages amount to shs 100,000

Required:

- a) Income statement for the year ended 31st December 2017. (5 marks)
- b) Statement of financial position as at 31st December 2017. (5 marks)

QUESTION FIVE (20 MARKS)

Mr Chai has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30 April 2017, the end of his most recent financial year.

	Shs
Capital	83,887
Sales	259,870
Trade creditors	19,840
Returns out	13,407
Provision for doubtful debts	512
Discounts allowed	2,306
Discounts received	1,750
Purchases	135,680
Returns inwards	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440

Stock as at 1 May 2016	15,654
Trade debtors	24,500
Fixtures and fittings – at cost	120,740
Provision for depreciation on fixtures and fittings – as at 30 April 2017	63,020
Depreciation	12,074

The following additional information as at 30 April 2017 is available:

- a) Stock at the close of business was valued at Shs 17,750.
- b) Insurances have been prepaid by Shs 1,120.
- c) Heating and lighting is accrued by Shs 1,360.
- d) Rates have been prepaid by Shs 5,435.
- e) The provision for doubtful debts is to be adjusted so that it is 3% of trade debtors.

Required:

- i) Mr Chai's income statement for the year ended 30th April 2017. (10 marks)
- ii) Mr Chai's statement of financial position as at 30th April 2017. (10 marks)