MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

………… YEAR FIRST SEMESTER EXAMINATION FOR

MASTER OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

DATE: **TIME:**

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) At the beginning of the year 2016 Ramco Company had 10,000 units of stock at a cost of Kshs 15. During the year, Ramco bought 100,000 units at Kshs. 22. Ramco also sold 100,000 units in the year at Kshs 27.

Required:

I. Compute cost of sales for Ramco in 2016

II. Calculate Cost of inventory using LIFO and FIFO cost flows. Calculate the difference in cost

III. Compute LIFO and FIFO income statement for 2016.

IV. Discuss effect of LIFO/LIFO cost flow on income (15 marks)

(b) At the beginning of 2016, KIKOI Manufacturing purchased a new machine for its assembly line at a cost of Kshs. 600,000. The machine has an estimated useful life of 10 years and estimated residual value of Kshs. 50,000. As a new company, KIKOI Manufacturing would like to acquire debt financing in anticipation of additional sales to Konza city construction which is expected to be a glass city.

Required:

Advise KIKOI manufacturing which depreciation method they should use and why, for 2016 financial reporting purposes as they approach their preferred financial partner. What is the effect of each method on cash flow from operations (CFO)? (10 marks)

QUESTION THREE (25 MARKS)

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

Big Venture Dreams
Trial Balance
December 31, 2018

	Debit	**Credit**
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		4,500
	Kshs. 61,850	Kshs. 67,650

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) 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)

d) Fairplay had the following information related to the sale of its products during 2009, which was its first year of business:

Revenue	Kshs. 1,000,000
Returns of goods sold	100,000
Cash collected	800,000
Cost of goods sold	700,000’

Under the accrual basis of accounting, compute the net revenue and Gross profit to be reported on Fairplay’s 2009 income statement? (5 marks)

QUESTION FOUR (25 MARKS)

a) 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	71,719	71,702
Total Assets	**116,422**	**115,444**
Liabilities and Shareholders; Equity		
Current liabilities	55,027	52,292
Noncurrent liabilities	57,612	64,612
Total Liabilities	112,639	116,904
Total Shareholder's Equity	3,783	(1,460)
Total Liabilities & shareholder's Equity	**116,422**	**115,444**

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)

b) Kaa & Mondi 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.
6. Mondi disagrees with Kaa on each of the above situations.

Instructions

For each transaction, indicate why Mondi disagrees. Identify the accounting principle or assumption that Kaa would be violating if his suggestions were used. (15 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)	(1,00
Total Assets	**398,000**	**138,000**

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	164,000	48,000
Total Liabilities & Shareholder's Equity	**398,000**	**138,000**

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 (9 marks)

b) '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)

c) Critically evaluate how enhancing qualitative characteristics of accounting information can improve reporting. (12 marks)