MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

DIPLOMA IN INFORMATION TECHNOLOGY

DACC 111: FINANCIAL ACCOUNTING AND MANAGEMENT

DATE: 25/7/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (30 MARKS)

a) Great Lakes utilities is deciding if it should build an oil or a coal generating plant. Its weighted average cost of capital is 8% for low-risk projects 10% for projects of average risk and 12% for high-risk projects. Management believes that an oil plant is of average risk but that a coal plant is of high risk. The cash outflows required to construct each plant are listed below. The revenue, fuel costs and other operating costs are expected to be the same under both plans.

Construction Cost (Shs`000')

Year	Coal Plant	Oil Plant
0	100	400
1	500	1,000
2	1,500	1,000
3	1,500	1,000
4	1,500	1,500
5	1,000	1,000
6	500	200

Required:

i. Payback period for each project. (5 marks)

ii. Evaluate the project using the Net Present Value Method, comment which type of plant should be constructed, (10marks)

iii. Profitability index for each project. (5 marks)

b) Identify ten users of financial accounting information and explain why they need it. (10 marks)

QUESTION TWO (20 MARKS)

a) Discuss five objective of business. (10 marks)

b) Discuss the cause of conflict of interest between Auditor and shareholder. (10 marks)

QUESTION THREE (20 MARKS)

The following list of balances has been extracted from ledger of friends Shop as at 30 April 2017, the end of 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 2017	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

Required:

a) Prepare trial balance as at 30th April 2017. (7 marks)

b) Prepare income for the year ending 30th April 2017. (7 marks)

c) Statement of financial position as at the date. (8 marks)

QUESTION FOUR (20 MARKS)

Explain the following accounting concepts. (Each 2 marks)

a) Going concern concept

b) Periodicity concept

c) Monetary unit concept

d) Objectivity concept

e) Materiality concept

f) Historical cost concept

g) Substance over form concept

h) Business entity concept

i) Matching concept

j) Full disclosure

QUESTION FIVE (20 MARKS)

a) The following trial balance has been extracted from the ledger of Mr Yousef, a sole trader.

Trial Balance as at 31 May 2017

	Dr	Cr
	SHS	SHS
Sales		138,078
Purchases	82,350	
Carriage	5,144	
Drawings	7,800	
Rent, rates and insurance	6,622	
Postage and stationery	3,001	
Advertising	1,330	
Salaries and wages	26,420	
Bad debts	877	
Provision for doubtful debts		130
Debtors	12,120	
Creditors		6,471
Cash in hand	177	
Cash at bank	1,002	
Stock as at 1 June 2016	11,927	
Equipment		
at cost	58,000	
accumulated depreciation		19,000
Capital	-	53,091
	216,770	216,770

The following additional information as at 31 May 2017 is available:

1. Rent is accrued byShS210.
2. Rates have been prepaid byShS880.
3. ShS2,211 of carriage represents carriage inwards on purchases.
4. Equipment is to be depreciated at 15% per annum using the straight line method.
5. The provision for doubtful debts to be increased byShS40.
6. Stock at the close of business has been valued atShS13,551.

Required:

a) Prepare an income statement for the year ending 31 May 2017. (10 marks)

b) Prepare a statement of financial position as at 31 May 2017. (10 marks)