POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBA 501: FINANCIAL ACCOUNTING

DATE: 28TH JULY 2026

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE is compulsory.**
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided**

QUESTION ONE

A) Read the Case Study below carefully and answer the questions that follow:

A rapidly growing manufacturing company, Alpha Eco Industries Ltd., has expanded its operations across several counties in Kenya. The company recently attracted foreign investors who requested detailed financial information before injecting additional capital into the business. During a strategic management meeting, the Chief Executive Officer (CEO) stated: "We need to understand why accounting is important to our organization, what areas it covers, and how it helps different stakeholders in decision-making."

As a Master's student in Accounting and Finance, you are required to advise the management of Alpha Eco Industries Ltd. on the nature, scope, and purpose of accounting in modern organizations.

Required.

Explain the:

i) Nature of accounting

ii) Scope of accounting

iii) Purpose of accounting

Relate your answer to the case above. **(5 Marks)**

B) (i) XYZ Ltd reported the following for the year ended 2025:

- Current Assets = KSh 900,000
- Current Liabilities = KSh 450,000
- Net Profit = KSh 300,000
- Sales Revenue = KSh 2,000,000

Required:
a) Calculate the Current Ratio.
b) Calculate the Net Profit Margin.
c) Briefly interpret the results. **(3 Marks)**

ii) The sales revenue of ABC Ltd for three years was as follows:

Year	**Sales (KSh)**
2023	1,000,000
2024	1,200,000
2025	1,500,000

Required:
Using 2023 as the base year, compute the trend percentages for 2024 and 2025.

(3 Marks)

iii. Two companies operating in the same industry reported the following net profit margins in 2025:

Company	**Net Profit Margin**
Alpha Ltd	12%
Beta Ltd	18%

Required:
Compare the performance of the two firms using cross-sectional analysis.
(3 Marks)

C) ***Safaricom PLC reported the following information for the year ended 2025:***

- Revenue: KSh 150 million
- Cost of Goods Sold (COGS): KSh 90 million
- Operating Expenses: KSh 35 million
- Interest Expense: KSh 5 million
- Tax Expense: KSh 4 million

Required:

a) Calculate the Operating Income. **(2 Marks)**

b) Briefly explain what the operating income indicates about the company's performance. **(2 Marks)**

D) A manufacturing company, Safaricom PLC Equipment Division, sold goods worth KSh 2,500,000 on credit to a customer on 1 April 2026. The payment terms were 60 days. The company delivered the goods immediately, and ownership and risks passed to the customer upon delivery. However, by the end of April, the customer had not yet paid.

Required:

a) Explain when revenue should be recognized according to relevant accounting principles.
(2 Marks)

b) Show the journal entries for:

i. Revenue recognition on the date of sale.

ii. Receipt recognition as a receivable.

(2 Marks)

E) XYZ Traders Ltd provided the following balances as at 31 December 2025:

Item	**Ksh.**
Land and Buildings	8,000,000
Motor Vehicles	2,500,000
Accumulated Depreciation – Motor Vehicles	500,000
Inventory	1,200,000
Trade Receivables	950,000
Bank Balance	400,000
Trade Payables	1,100,000
Long-term Loan	3,000,000
Capital	6,500,000
Retained Earnings	1,450,000

Additional Information:

1. Depreciation on motor vehicles for the year is Ksh. 250,000.
2. Inventory valued at Ksh. 100,000 was damaged and should be written off.
3. Accrued expenses amounting to Ksh. 150,000 had not been recorded.

Required:

Prepare the Statement of Financial Position of XYZ Traders Ltd as at 31 December 2025 in accordance with International Accounting Standards

Board presentation requirements.

(8 Marks)

QUESTION TWO

A) The following trial balance extracts were obtained from the books of XYZ Manufacturing Ltd for the year ended 31 December 2025:

Item	**KSh '000'**
Revenue	8,500
Cost of Sales	4,700
Administrative Expenses	950
Selling and Distribution Expenses	620
Finance Costs	180
Gain on Revaluation of Land	300
Loss on Foreign Currency Translation	120
Income Tax Expense	480
Dividend Income	90

Additional Information:

1. Dividend income is classified as other operating income.
2. Gain on revaluation of land should be reported under Other Comprehensive Income (OCI).
3. Foreign currency translation loss should also be reported under OCI.
4. Tax effects on OCI may be ignored.

Required

Prepare a Statement of Profit or Loss and Other Comprehensive Income for XYZ Manufacturing Ltd for the year ended 31 December 2025.

(8 Marks)

B) ABC Holdings Ltd, a medium-sized investment company, prepared the following information for the year ended 31 December 2025:

1. The company purchased 20,000 ordinary shares of XYZ Ltd at KSh 50 per share as a short-term investment. Brokerage fees amounted to KSh 40,000.
2. During the year, ABC Holdings received dividends amounting to KSh 120,000 from XYZ Ltd.

3. At the end of the year, the market price of the shares was KSh 54 per share.
4. The company also owns bonds classified as long-term investments with a carrying value of KSh 2,000,000 and fair value of KSh 1,920,000 at year-end.

Required

a) Compute the initial cost of the shares investment.
(2 Marks)

b) Prepare the journal entries relating to:

- Purchase of shares
- Receipt of dividends
- Fair value adjustment of shares investment at year-end
  (3 Marks)

c) Explain how the short-term shares investment and long-term bond investment will be reported in the financial statements under IFRS.
(2 Marks)

QUESTION THREE

A) International Accounting Standards Board issued standards guiding the accounting treatment and valuation of publicly traded equity securities.

ABC Investment Ltd purchased the following equity investments on 1 January 2025:

Investment	Number of Shares	Cost per Share (Ksh.)	Total Cost (Ksh.)
Safaricom PLC	20,000	18	360,000
Equity Group Holdings PLC	10,000	42	420,000

Additional information:

i. Brokerage fees amounted to Ksh. 15,000.
ii. The company's business model is:
   - Safaricom shares: held for trading purposes.
   - Equity Group shares: held for long-term strategic investment.
iii. At 31 December 2025:
   - Safaricom shares had a market value of Ksh. 22 per share.
   - Equity Group shares had a market value of Ksh. 46 per share.
iv. During the year, dividends received were:
   - Safaricom: Ksh. 24,000
   - Equity Group: Ksh. 18,000

Required

a) Identify and explain the applicable accounting standards governing valuation of publicly traded equity securities.
(3 Marks)

b) Classify the investments and explain the basis of valuation under IFRS.
(2 Marks)

c) Compute the year-end carrying values and gains/losses for each investment.
(3 Marks)

d) Explain the accounting treatment of dividend income. **(2 Marks)**

B) International Accounting Standards Board developed the Conceptual Framework to guide the preparation and presentation of financial statements.

A medium-sized manufacturing company in Kenya is preparing its annual financial statements. The finance manager argues that accounting information should only focus on profits, while the auditor insists that financial reports must also possess qualitative characteristics such as relevance and faithful representation.

Required:

a) Explain the meaning of the Conceptual Framework in financial accounting.
(2 Marks)

b) Identify and explain any TWO qualitative characteristics of useful financial information applicable in this case.
(2 Marks)

c) State ONE importance of the Conceptual Framework to accountants and users of financial statements.
(1 Mark)

QUESTION FOUR

A) XYZ Ltd provided the following information for the year ended 31 December 2025:

Item	Amount (Ksh.)
Net Profit before tax	450,000
Depreciation expense	80,000
Gain on sale of equipment	20,000
Increase in accounts receivable	40,000
Decrease in inventory	30,000
Increase in accounts payable	25,000
Income tax paid	70,000
Purchase of machinery	200,000
Proceeds from sale of equipment	60,000
Dividends paid	50,000
Issue of ordinary shares	150,000

Required:

Prepare a Statement of Cash Flows using the indirect method and briefly interpret the cash flow position of the company.

(8 Marks)

B) A medium-sized manufacturing company is preparing its annual financial statements. The finance manager explains that the company follows a systematic accounting methodology involving identification, recording, classification, summarization, and interpretation of financial transactions.

Required:

a) Explain the meaning of accounting methodology. **(2 Marks)**

b) Identify and briefly explain any two stages involved in accounting methodology. **(2 Marks)**

c) Discuss three major problems associated with the implementation of Green Accounting in organizations and countries. **(3 Marks)**