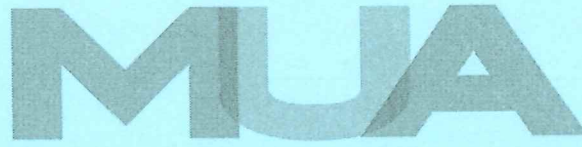


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**POST GRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**MBA 501: FINANCIAL ACCOUNTING**

**DATE: 30<sup>TH</sup> JULY 2024**

**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) The Statement of Financial Position of the MUA Sports Club as at 31 December 2017 was as follows:

|  |                |                              |
|--|----------------|------------------------------|
| <b>Non-Current Assets</b>              |                |                              |
| Land at cost                           | 150,000        |                              |
| Equipment & Furniture (Cost - €40,000) | <u>23,000</u>  |                              |
| <b>Total Non-Current Assets</b>        |                | <b>173,000</b>               |
| <b>Current Assets</b>                  |                |                              |
| Bar inventories                        | 9,200          |                              |
| Subscriptions Owing                    | 2,500          |                              |
| Bank Current Account                   | 2,250          |                              |
| Bank Deposit Account                   | <u>12,000</u>  |                              |
| <b>Total Current Assets</b>            |                | <b><u>25,950</u></b>         |
| <b>TOTAL ASSETS</b>                    |                | <b><u><u>198,950</u></u></b> |
| <b>Equity &amp; Liabilities</b>        |                |                              |
| Equity                                 |                |                              |
| Accumulated Fund                       | <u>139,450</u> |                              |
| <b>Total Equity</b>                    |                | <b>139,450</b>               |
| <b>Non-Current Liabilities</b>         |                |                              |
| Long-term Loan                         | <u>48,000</u>  |                              |
| <b>Total Non-Current Liabilities</b>   |                | <b>48,000</b>                |
| <b>Current Liabilities</b>             |                |                              |
| Bar Trade Payables                     | 8,400          |                              |
| Subscriptions in Advance               | 800            |                              |
| Bar Wages Due                          | <u>2,300</u>   |                              |
| <b>Total Current Liabilities</b>       |                | <b><u>11,500</u></b>         |
| <b>TOTAL EQUITY &amp; LIABILITIES</b>  |                | <b><u><u>198,950</u></u></b> |

The club's summarised bank account for 2018 was as follows:

|                      |                |                             |                |
|----------------------|----------------|-----------------------------|----------------|
| Balance at 1 January | 2,250          | Bar purchases               | 74,700         |
| Bar sales            | 166,000        | Bar expenses                | 29,200         |
| Subscriptions        | 68,000         | Bar wages                   | 75,600         |
| Competition entries  | 14,800         | Rates                       | 10,000         |
|                      |                | Loan repayments             | 19,600         |
|                      |                | Competition entries         | 10,400         |
|                      |                | Equipment                   | 7,000          |
|                      |                | Sundry expenses             | 2,540          |
|                      |                | Transfer to deposit account | 10,000         |
|                      |                | Balance at 31 December      | <u>12,010</u>  |
|                      | <u>251,050</u> |                             | <u>251,050</u> |

The following information is also provided:

(i) **Balances at 31 December 2018**

|                          |       |
|--------------------------|-------|
| Bar inventories          | 9,900 |
| Subscriptions owing      | 2,000 |
| Bar trade payables       | 8,000 |
| Subscriptions in advance | 1,200 |
| Bar wages due            | 1,600 |

- (ii) The long term loan is repaid in annual instalments of €15,000 excluding interest. The interest in 2018 is €4,600.
- (iii) Interest receivable on the deposit account is €500.
- (iv) Depreciation is provided on equipment and furniture at 10% per annum on cost.

**REQUIREMENT:**

Prepare for the year ended 31 December 2018:

- (a) A Bar Trading account for MUA Sports Club. (5 Marks)
- (b) An Income & Expenditure account for MUA Sports Club. (5 Marks)
- (c) A Statement of Financial Position for MUA Sports Club. (5 Marks)

B) JCA Limited has asked you, a Certified Public Accountant, for advice on how to account for provisions, contingent liabilities and contingent assets. The company's year-end is 31 March.

**Requirement:**

The financial controller of JCA Limited has asked you to prepare a report which addresses the following:

- (a) In accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, describe what is meant by the following:
- (i) A provision; (2 Marks)
- (ii) A contingent liability; (2 Marks)
- (iii) A contingent asset. (1 Mark)
- (b) Discuss the recognition criteria for the following:
- (i) A provision; (2 Marks)
- (ii) A contingent liability; (2 Marks)
- (iii) A contingent asset (1 Mark)
- (c) The accounting cycle refers to the sequence of accounting procedures used to record, classify and summarise accounting information. Discuss (5 Marks)

**QUESTION TWO**

- I) JCA Limited provides a one year guarantee on equipment that it sold directly to customers. At the company's year end, it is being sued by one of its customers for refusing to repair equipment within the guarantee period. JCA Limited believes the fault is not covered by the guarantee on the grounds that the customer did not comply with the instructions for using the equipment.

JCA Limited's lawyer has advised that it is more likely than not that the company will be found liable. This would result in it incurring repair costs, including legal expenses amounting to approximately €30,000.

The company also manufactures another line of equipment which it sells to wholesalers. The company sold 4,000 items of this type, including in the past year. This equipment also has a one year repair guarantee. Based on past experience, 10% of items sold are returned for repair. In each case, 70% of the items returned are able to be repaired at a cost of €80, while the remaining 30% need significant repair at a cost of €250.

**Requirement:**

Document and justify the correct accounting treatment to deal with the above issues in the books of JCA Limited for the year ended 31 March 2019. (5 Marks)

II) The trial balance for Ms. Frances Kennedy, an IT contractor in Dublin, for the year ended 31 December 2018 does not balance. Ms. Kennedy had identified the following issues but is unsure how to account for them and has approached you for help and guidance in rectifying the issues:

- a. Discount received of €210 has been debited to the discount allowed account.
- b. A rent expense of €1,000 paid during the year was recorded by debiting the rates account.
- c. A €2,000 payment in relation to insurance expenses has been debited to insurance and debited to trade payables in error. The balancing entry was posted to suspense.
- d. The total of the purchases day book has been carried forward as €12,348, whereas the correct amount was €12,843. The correct amount has been posted to trade payables.
- e. Ms. Kennedy personally paid €10,000 towards the purchase of a motor vehicle for her business. The following entry was made in her financial statements:

|        |               |         |         |
|--------|---------------|---------|---------|
| Debit  | Bank          | €10,000 |         |
| Credit | Motor Vehicle |         | €10,000 |

**Requirement:**

Prepare journal entries for Ms. Frances Kennedy to record and correct relevant transactions from the above information for the financial statements for the year ending 31 December 2018.

(7 Marks)

III) Describe your understanding of cash flow from financing activities? (3 Marks)

### QUESTION THREE

1) Shacarn Limited is a company which supplies meat to the retail trade. The following are their results for the last two years.

#### Shacarn Limited Statement of Profit or Loss and Other Comprehensive Income Statement for the Year-ended 31 December 2018

|                            | 2018          | 2017          |
|----------------------------|---------------|---------------|
|                            | '000'         | '000          |
| Sales                      | 24,000        | 18,000        |
| Cost of Sales              | <u>16,800</u> | <u>12,000</u> |
| Gross Profit               | 7,200         | 6,000         |
| Distribution Costs         | 1,200         | 1,000         |
| Administration Costs       | 800           | 750           |
| Finance Costs              | <u>620</u>    | <u>840</u>    |
| Profit before tax          | 4,580         | 3,410         |
| Taxation                   | <u>573</u>    | <u>426</u>    |
| Profit for the Year        | 4,007         | 2,984         |
| Other Comprehensive Income | <u>0</u>      | <u>0</u>      |
| Total Comprehensive Income | <u>4,007</u>  | <u>2,984</u>  |

#### Shacarn Limited Statement of Financial Position for the Year-ended 31 December 2018

|                                      | 2018         | 2018                 | 2017          | 2017                 |
|--------------------------------------|--------------|----------------------|---------------|----------------------|
|                                      | €'000        | €'000                | €'000         | €'000                |
| <b>Non-Current Assets</b>            |              | <b>13,200</b>        |               | <b>11,000</b>        |
| <b>Current Assets</b>                |              |                      |               |                      |
| Inventory                            | 1,400        |                      | 1,800         |                      |
| Trade Receivables                    | 2,000        |                      | 1,200         |                      |
| Cash and Cash Equivalents            | 1,200        |                      | 400           |                      |
| <b>Total Current Assets</b>          |              | <b>4,600</b>         |               | <b>3,400</b>         |
| <b>Total Assets</b>                  |              | <b><u>17,800</u></b> |               | <b><u>14,400</u></b> |
| <b>Equity &amp; Liabilities</b>      |              |                      |               |                      |
| <b>Equity</b>                        |              |                      |               |                      |
| Ordinary Share Capital (€1)          | 2,000        |                      | 2,000         |                      |
| Retained Earnings                    | <u>4,767</u> |                      | <u>760</u>    |                      |
| <b>Total Equity</b>                  |              | <b>6,767</b>         |               | <b>2,760</b>         |
| <b>Non-Current Liabilities</b>       |              |                      |               |                      |
| Long-term Debt                       | <u>9,000</u> |                      | <u>10,000</u> |                      |
| <b>Total Non-Current Liabilities</b> |              | <b>9,000</b>         |               | <b>10,000</b>        |
| <b>Current Liabilities</b>           |              |                      |               |                      |
| Trade Payables                       | 1,400        |                      | 1,200         |                      |

|                                     |               |                     |
|-------------------------------------|---------------|---------------------|
| Bank Overdraft                      | 240           | 60                  |
| Taxation                            | 120           | 180                 |
| Accruals                            | <u>273</u>    | <u>200</u>          |
| <b>Total Current Liabilities</b>    | <b>2,033</b>  | <b><u>1,640</u></b> |
| <b>Total Equity and Liabilities</b> | <b>17,800</b> | <b>14,400</b>       |

**Notes:**

- (i) The Opening Inventory for 2017 was €2,000,000.
- (ii) The number of ordinary shares in issue is 2,000,000 for both years.

|  |                             |                             |
|--|-----------------------------|-----------------------------|
| (iii) Current Share Price per Ordinary Share | <b>31/12/2018</b><br>€26.00 | <b>31/12/2017</b><br>€15.00 |
|--|-----------------------------|-----------------------------|

**Requirement:**

- (a) Calculate for the following ratios for both years in relation to Shacarn Limited.

- |                             |                   |
|-----------------------------|-------------------|
| (1) Gross Profit Percentage | <b>(1 Mark)</b>   |
| (2) Net Profit Percentage   | <b>(1 Mark)</b>   |
| (3) Quick Ratio             | <b>(1 Mark)</b>   |
| (4) Trade Receivable Days   | <b>(0.5 Mark)</b> |
| (5) Trade Payable Days      | <b>(0.5 Mark)</b> |
| (6) Interest Cover          | <b>(1 Mark)</b>   |
| (7) Earnings Per Share      | <b>(1 Mark)</b>   |
| (8) Price Earnings Ratio    | <b>(1 Mark)</b>   |

- (b) Draft a report to the Board of Directors of Shacarn Limited in which you provide a commentary on the company's position and performance. Use the ratios calculated at (a) above as the basis for your commentary. **(3 Marks)**

II) Green Accounting, also known as environmental accounting or sustainable accounting, is a system of accounting that takes into account the economic, environmental, and social costs and benefits of business activities. It involves measuring and reporting the impacts of economic activities on natural resources and the environment, in addition to traditional financial measures. Distinguish between Environmental Management Accounting (EMA) and Full Cost Accounting (FCA) **(5 Marks)**

**QUESTION FOUR**

A) You have been asked to prepare the final accounts for W Smith, a sole trader, for the year ended 31 December 2013. W Smith has forwarded to you all books of prime entry and ledgers, and in addition has given you the following information:

- i) Mr Smith had taken £2,000 out of the business bank account to take his wife on holiday.
- ii) Up to last year the machinery and vehicle used in the business had been depreciated using the reducing balance method. W Smith thinks that they should now be depreciated using the straight-line method.
- iii) Mr Smith is confident, given his order book, that the business will continue to operate in its present form for many years.
- iv) Mr Smith had purchased ten staplers, four flip charts and four packets of whiteboard markers which will be used in the business for the next couple of years.
- v) Mr Smith informs you that he has just found an unopened electricity bill for £900 which was for the quarter October to December 2013.

**Required:**

In each case, identify and then explain the main accounting concepts being highlighted and indicate how each should be treated in the final accounts. **(5 Marks)**

- B) The objective of IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transactions and events. Explain Revenue Recognition as per IAS 18 **(5 Marks)**
- C) Explain how investments are reported in the financial statements. **(5 Marks)**

