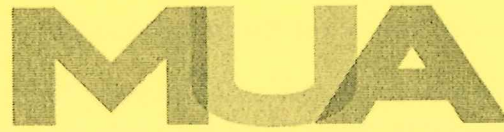


The
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POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

MASTER OF BUSINESS ADMINISTRATION

MBA 501: FINANCIAL ACCOUNTING

DATE: 19TH JULY 2022

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

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

Prepare a Statement of Comprehensive Income for the year ending 31.03.2022 and a Statement of Financial Position as on that date from the following trial balance:

Trial Balance Particulars	Dr. (Ksh.)	Cr. (Ksh.)
Opening Stock	16,000	
Capital		45,000
Salaries	13,000	
Drawings	4,000	
Carriage Inwards	500	
Carriage Outwards	1,000	
Sales Return	1,000	
Purchase Return		7,00
Loan to Mr. X	11,000	
Loan from Mr. Y		7,000
Rent	1,300	
Rent Outstanding		200
Purchase	40,000	
Sales		73,100
Debtors	25,000	
Creditors		8,000
Bad Debt	800	
Reserve for Bad Debt		1,200
Discount Allowed/Received	600	
Furniture	11,700	
Wages	500	
Insurance Premium	1,200	
Rent by Sub-letting		800
Cash	700	
Bank	8,000	

Total	136,300	136,300
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Adjustments

1. Closing Stock Ksh. 10,500, but the market value of closing stock was Ksh. 9,500.
2. Insurance premium prepaid Ksh. 200.
3. Loan to Mr. X, given at 10% interest p.a. and loan taken from Mr. Y carries 9% interest p.a.
4. Depreciation is to be provided at 5% on furniture.
5. Goods worth Ksh. 500 have been taken by the proprietor for private use.
6. Bad and doubtful debts are to be provided at 10%.

REQUIRED:

- a) Statement of Comprehensive Income (7 Marks)
- b) Statement of Financial Position (8 Marks)
- c) To bring uniformity in accounting information, accountants all over the world follow certain common practices known as concepts, conventions and postulates while recording financial transactions. These practices come under preview of accounting theory framework: Discuss (5 marks)
- d) Discuss Conditions for Revenue Recognition (5 marks)
- e) Aran construction limited is a growing construction company in the middle east, and they prepare their financial statements are the IFRS reporting standards. By looking at the annual report of the company for the fiscal year 2013. The balance sheet asset number stands at Ksh 2,000,000; out of which 50% are of current nature. The reported Net income for that particular period is Ksh 500,000. Required: Calculate the Return on the operating asset (5 marks)

QUESTION TWO

- A) The following data has been extracted from the business information report for Lucrative Prospects Ltd. Analyze the changes for each between 2015 and 2016, showing the potential impact upon Lucrative Prospects Ltd in

general and making reference to its management of its working capital in particular. (5 marks)

Business Information Report (extract) on Lucrative Prospects

Ratio Calculated	2016	2015
Current Ratio	2.5:1	2.2:1
Acid Test Ratio	0.7:1	1.1:1
Receivables Period	49.5 days	33.3 days
Payable Period	24.8 days	28.7 days
Inventory Turnover Rate	80.7 days	63.5 days

B) The trial balance for Ms. Frances Kennedy, an IT contractor in Dublin, for the year ended 31 December 2021 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:

1. Discount received of Ksh210 has been debited to the discount allowed account.
2. A rent expense of Ksh1,000 paid during the year was recorded by debiting the rates account.
3. A Ksh2,000 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.
4. The total of the purchases day book has been carried forward as Ksh12,348, whereas the correct amount was Ksh12,843. The correct amount has been posted to trade payables.
5. Ms. Kennedy personally paid Ksh10,000 towards the purchase of a motor vehicle for her business. The following entry was made in her financial statements:

Debit	Bank	Ksh10,000
Credit	Motor Vehicle	Ksh10,000

6. A VAT credit of Ksh2,000 on motor expenses was incorrectly assumed to be recoverable.
7. A prepayment of rent amounting to Ksh8,000 was correctly entered in the bank account and was also credited to rent payable. The balancing entry was posted to suspense. Ms. Kennedy included a suspense debit balance of Ksh12,075 to balance the trial balance.

Required:

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 2021. **(10 Marks)**

QUESTION THREE

A) Off-balance-sheet financing is an accounting practice whereby a company does not include a liability on its balance sheet. It is used to impact a company's level of debt and liability. The practice has been denigrated by some since it was exposed as a key strategy of the ill-fated energy giant Enron.1. **Required:** Discuss common forms of Off-Balance Sheet Financing **(5 Marks)**

B) Prepare cash flow statement of Satyam Ltd. From the following:

Liabilities	1.1.22	31.12.22	Assets	1.1.22	31.12.22
Share capital	100,000	400,000	Goodwill	□	20,000
8% debenture	□	200,000	Machinery	125,000	475,000
Retained earnings	60,000	90,000	Inventory	20,000	80,000
Creditors	40,000	100,000	Debtor	30,000	100,000
Bills payable	20,000	40,000	Bank	50,000	150,000
Tax provision	30,000	40,000	Cash	25,000	45,000
	250,000	870,000		250,000	870,000

Additional Details:

1. During 2022 the business of a sole trader was purchased by issuing share for Ksh. 2,00,000. The assets acquired from him were: Goodwill Ksh. 20,000, machinery Ksh. 1,00,000, stock Ksh. 50,000 and Debtors Ksh. 30,000
2. Provision for tax charged in 2022 was Ksh. 35,000
3. The debenture was issued at a premium of 5% which is included in the retained earnings.
4. Depreciation charged on machinery was Ksh.30,000. **(10 Marks)**

QUESTION FOUR

- A) The development of the Conceptual Framework over the years has led to the International Accounting Standard Board (IASB) producing a body of world-class standards that have the advantages for those companies that adopt them, Discuss (5 marks)
- B) You are the accountant for a small computer programming company. You must record the following transactions. What values do you think you will use for each transaction?
- i. The company purchased a secondhand van to be used to travel to customers. The sellers told you they believe it is worth Ksh12,500 but agreed to sell it to your company for Ksh11,000. You believe the company got a really good deal because the van has a Ksh13,000 Blue Book value.
 - ii. Your company purchased its office building five years ago for Ksh175,000. Values of real estate have been rising quickly over the last five years, and a realtor told you the company could easily sell it for Ksh250,000 today. Since the building is now worth Ksh250,000, you are contemplating whether you should increase its value on the books to reflect this estimated current market value.
 - iii. Your company has performed a task for a customer. The customer agreed to a minimum price of Ksh2,350 for the work, but if the customer has absolutely no issues with the programming for the first month, the customer will pay you Ksh2,500 (which includes a bonus for work well done). The owner of the company is almost 100% sure she will receive Ksh2,500 for the job done. You have to record the revenue earned and need to decide how much should be recorded.
 - iv. The owner of the company believes the most valuable asset for his company is the employees. The service the company provides depends on having intelligent, hardworking, dependable employees who believe they need to

deliver exactly what the customer wants in a reasonable amount of time. Without the employees, the company would not be so successful. The owner wants to know if she can include the value of her employees on the balance sheet as an asset. (5 marks)

C) Discuss Problems of Green Accounting (5 Marks)

