



## **MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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### **University Examinations 2024/2025**

#### **FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION**

#### **BFA 5101: FINANCIAL ACCOUNTING**

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**DATE: JANUARY 2025**

**TIME:3 HOURS**

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**INSTRUCTIONS:** Answer question **one** and any other **three** questions

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#### **QUESTION ONE (30 MARKS)**

(a) Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. (4 marks)

(b) The following balances were extracted from the books of Wamu Traders Ltd. as at 30 September 2023

	Sh.	Sh.
Ordinary shares of Sh.20 each. Fully paid		600,000
8% preference shares sh.20 each. Fully paid		100,000
Share premium account		80,000
6% loan stock		100,000
Trade creditors		148,000
Trade debtors		330,000
Sales		4,800,000

Purchases	4,220,000
Discount allowed	5,000
Discounts received	13,000
Freehold buildings:	
At cost	500,000
Provision for	50,000
Depreciation	
Fixtures and fittings:	
At cost	640,000
Provision for depreciation	256,000
Stock 1 October 2022	420,000
Returns outwards	80,000
Establishment expenses	130,000
Administration expenses	56,000
Selling and distribution expenses	167,000
Bad debts written off	4,000
Provision for doubtful debts	18,000
Retained profit 1 October 2022	362,000
Goodwill	160,000
Bank overdraft	25,000

The following additional information is available:

1. Depreciation is provided annually on the cost of fixed assets held at the end of the financial year at the following rate:

    Freehold buildings    20%

    Fixtures and fittings    10%

2. The trade debtors balance includes Sh. 10,000 due from Musa who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
3. The provision for doubtful debts as at 30 September 2023 is to be 5 0 ,0/0 of trade debtors
4. Establishment expenses prepaid at 30 September 2023 amounted to Sh.4,000.
5. Administration expenses accrued at 30 September 2023 amounted to Sh.7.000.
6. The company paid the interest on the loan stock for the year, ended 30 September 2000 on 30 October 2023.
7. Closing stock was valued at Sh.560,000.
8. The company's directors propose that the preference share dividend be paid and a dividend of 10% the ordinary shares be paid.

**Required:**

- (i) Trading and profit and loss account and appropriation account for the year ended 30 September 2023 of Wan-lu Traders Ltd. (12 marks)
- (ii) Balance sheet as at 30 September 2023. (8 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain giving examples the distinguishing features of liabilities, provisions and reserves (9 marks)
- b) State how each of these items in (a) above are to be included and shown in the financial statements of a company (3 marks)

**QUESTION THREE (20 MARKS)**

The summarized financial statements of Baraka Enterprises Ltd. are as follows:

**Income statement for the year ended 30 September**

	<b>2022</b> <b>Sh.'000</b>	<b>2023</b> <b>Sh.'000</b>
Sales	20,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(21,000)</u>
Gross profit	5,000	7,000
Administrative expenses	<u>(3,800)</u>	<u>(4,600)</u>
Debenture interest		<u>(400)</u>
Net profit	<u>1,200</u>	<u>2,000</u>

**Balance sheet as at 30 September**

	<b>2022</b> <b>Sh.'000</b>	<b>2023</b> <b>Sh.'000</b>
<b>Assets:</b>		
Non-current assets (net book value) Current	11,000	<u>14 000</u>
<b>Current assets:</b>		
Inventories	2,000	3,000
Trade and other receivables	2,500	2,800
Balance at bank	-	<u>500</u>
	<u>4,500</u>	<u>6,300</u>
Total assets	<u>15,500</u>	<u>20,300</u>
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Issued and fully paid		
1,000,000 ordinary shares of Sh. 10 each	10,000	10,000
Revenue reserves	3,000	<u>4,100</u>
	<u>13, 000</u>	<u>14,100</u>
<b>Non current liabilities</b>		
8% debentures		<u>5,000</u>
<b>Current liabilities</b>		
Trade and other payables	1,500	1,200
Bank overdraft	<u>1,000</u>	-
	<u>2,500</u>	<u>1,200</u>
<b>Total equity and liabilities</b>	<u>15,500</u>	<u>20,300</u>

Stock as at 1 October 2021 was Sh. 5,000,000

**Required:**

For each year, calculate the following

- a) Gross profit margin (2 marks)
- b) Inventory turnover (2 marks)
- c) Return on assets (2 marks)
- d) Acid test ratio (2 marks)
- e) Current ratio (2 marks)
- f) Comment on the liquidity position of the company giving possible reasons for the change (2 marks)

**QUESTION FOUR (20 MARKS)**

- a) Using suitable examples, explain the meaning of the following terms:
  - (i) Accounting standards. (2 marks)
  - (ii) Accounting policies. (2 marks)
  - (iii) Accounting bases (2 marks)
- a) "Qualitative characteristics are the attributes that make information provided in financial statements useful to users."
- b) Briefly explain the four main qualitative characteristics of financial statements with reference to users of financial information (6 marks)

**QUESTION FIVE (20 MARKS)**

- (a) State any two circumstances that may hinder a firm from improving on the usefulness of its financial statements (4 marks)
- (b) Dickson Kimula is an electronic equipment dealer. He has sought your advice on certain matters relating to his financial statements for the year ended 30 April 2023. Citing the relevant accounting principle, advise Dickson Kimula how to deal with each of the following:

- (i) All his electrical equipment is sold with a one year warranty for repair and service, which on average costs Sh.480 per item. The value of equipment returned annually average 1% of the sales. The sales of the year ended 30 April 2023 were 200,000units. (2 marks)
- (ii) Closing stock as at 30 April 2023 was valued at Sh.500,000. However, some items of stock whose initial cost was Sh. 200,000 can only realise Sh. 150,000 after major repairs costing Sh.40,000 (2 marks)
- (iii) Sales for the year include deposits from customers amounting to sh.2,000,000. The goods had not been delivered to the customers as at 30 April 2023 (2 marks)
- (iv) The firms' VAT returns for the month of April 2023 had not been filed with the Revenue Authority. The penalty for late filing of VAT returns is Sh.10,000.

(2 marks)

