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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

DATE: JANUARY 2025

TIME:3 HOURS

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

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.OOO.
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 he paid.

Required:

- (i) Trading and profit and loss account and appropriation account for the sear 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

	2022	2023
	Sh.'000	Sh.'000
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

	2022	2023
	Sh.'000	Sh.'000
Assets:		
Non-current assets (net book value) Current	11,000	<u>14 000</u>
Current assets:		
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>
Equity and liabilities:		
Capital and reserves:		
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>
Non current liabilities		
8% debentures		<u>5,000</u>
Current liabilities	-	
Trade and other payables	1,500	1,200
Bank overdraft	<u>1,000</u>	-
	<u>2,500</u>	<u>1,200</u>
Total equity and liabilities	<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)

