



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2021/2022 ACADEMIC YEAR SECOND YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBM 13

**COURSE TITLE: FINANCIAL ACCOUNTING 11
AND COSTING**

DATE: 8TH APRIL, 2022

TIME: 0830-1030

INSTRUCTIONS TO CANDIDATES

- i. This paper consists of two sections*
- ii. Answer **ALL** Question in Section **One***
- iii. Answer three questions in section **Two***

*This paper consists of **XXXXXXXXXX** printed pages. Please turn over.*

Question one

- a) Smith and Jones are in partnership. According to their partnership agreement, they share profits and losses equally (1:1). Smith is entitled to a salary of shs. 1,000,000 p.a. and Jones is given a commission of shs. 500,000. Smith and Jones contributed shs.4, 500,000 each as capital with an interest on capital of 10% p.a. During the year ending 31st December 2021 Smith and Jones made drawings of Shs.2,000,000 each. The rate of interest charged on such drawings being of 10% p.a. The balances on the partners' current account on 1 January were: Smith Shs.550,000 (Cr) and Jones Shs. 700,000 (Dr). The Net Profit registered for the year was Shs. 5,000,000.

You are required to prepare:

- i) The Profit and Loss Appropriation Account **(3 marks)**
ii) The Partners' Current Account **(2 marks)**

- b. The following balances were extracted from the books of Kasaya Limited as at 30 September 2021:

	Sh. '000'
Land and buildings (net book value)	5,000
Plant and machinery (net book value)	8,600
Motor vehicles (net book value)	2,000
Inventory	6,000
Ordinary share capital (Sh.50 par value)	10,000
10% preference share capital (Sh.100 par value)	9,000
10% debentures	8,000
Corporation tax	500
Interim ordinary dividend paid	2,000
Other operating expenses	1,550
Distribution costs	6,000
Administrative expenses	13,000
Accounts payable	19,000
Other operating income	4,000
Gross profit	25,000
Debenture interest paid	400
Preference dividend paid	450
Accounts receivable	20,000
Cash at bank	4,100
Capital redemption reserve	6,000
Share premium	4,000
Revenue reserves (1 October 2020)	3,000

Additional Information:

1. The balance on the corporation tax account represents an over provision of tax for the previous year. Tax expense for the current year is estimated at Sh.3 million.
2. On 15 September 2021, the directors of the company proposed to pay the dividend due to the preference shareholders and to also pay a final dividend of Sh.2 million to the ordinary

shareholders.

3. A building whose net book value is Sh.5 million is to be revalued to Sh.9 million.

Required:

a) Income statement for the year ended 30 September 2021. **(10 marks)**

b) Statement of financial position as at 30 September 2021. **(5 marks)**

c) Cash Flow Statement is of vital importance to the financial management. Highlight five importance of a cash flow statement **(5 marks)**

Question two

Mboyamak limited manufacturer's farm implements.

The following list of balances was extracted from the books of account of the company as at 31 December 2020 Shs

Inventory as at 1 January 2020	Shs
Raw materials	1,270,000
Work in progress	1,555,000
Finished goods	1,163,000
Purchase of raw materials	4,576,750
Carriage of raw materials	98,000
Direct labour	4,210,400
office salaries	1,670,950
Rent	260,000
Electricity (office)	221,000
Depreciation expense Machinery	510,000
Equipment (office)	115,000
Sales	15,931,100
Electricity (factory)	406,000

Additional information;-

1. Inventory as at 31 December 2020 was given as follows:

- Shs Raw materials 1,445,000

-Work in progress 1,230,000

-Finished goods 1,442,000

2. Rent is to be apportioned between the factory and office in the ratio of 3:1

3. Finished goods are transferred from factory to sales at mark up of 20%

4. The values of opening and closing inventory are given at the transfer price

Required;

- i) Manufacturing account for the year ended 31 December 2020 **(10 marks)**

ii) Income statement for the year ended 31 December 2020 **(5 marks)**

Question three

The following information relates to Mutongoi Limited.

	Sh.000
Purchase of raw material	6,700
Usage of raw material	6,500
Sale of finished goods (all on credit)	25,000
Cost of sales (Finished goods)	18,000
Average creditors	1,400
Average raw materials stock	1,200
Average work in progress	1,000
Average finished goods stock	2,100
Average debtors	4,700

Assume a 365 days year.

Required:

- a) The length of the operating cash cycle. **(10 marks)**
- b) Explain any five sources of capital for a company **(5 marks)**

Question four

Three years ago, Mrs. Rehema Waziri was retrenched from the Civil Service. She invested substantially all her terminal benefits in the shares of ABC Ltd., a company quoted on the stock exchange. The dividend payments from this investment makes up a significant position of Mrs Waziri' s income. She was alarmed when ABC Ltd. dropped its year 2014 dividend to Sh.1.25 per share from Sh.1.75 per share which it had paid in the previous two years. Mrs Waziri has approached you for advice and you have gathered the information given below regarding the financial condition of ABC Ltd. and the finance sector as a whole.

ABC Ltd. Balance Sheets as at 31 October

	2012	2013
	Sh.'000'	Sh.'000'
Cash	15,250	14,400
Accounts receivable	80,320	87,800
Inventory	98,600	158,800
Total current assets	194,170	261,000
Land and buildings	25,230	27,600
Machinery	33,800	36,400
Other fixed assets	14,920	18,200
Total assets	268,120	343,200
Accounts and notes payable	34,220	73,760
Accruals	15,700	34,000
Total current liabilities	49,920	107,760
Long term debt	60,850	60,858
Ordinary share capital	115,000	115,000
Retained earnings	42,350	59,582
Totals	268,120	343,200

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	2012	2013
	Sh.'000'	Sh.'000'
Sales (all on credit)	827,000	858,000
Cost of sales	(661,600)	(710,000)
Gross profit	165,400	148,000
General administrative and selling expenses	(63,600)	(47,264)
Other operating expenses	(25,400)	(31,800)
Earnings before interest and tax (EBIT)	76,400	68,936
Interest expense	(12,800)	(26,800)
Net income before taxes	63,600	42,136
Taxes	(25,400)	(16,854)
Net income	38,200	25,282

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compute the following ratios and compare them to the industry ratios and comment on the firm's performance using the table below,(Total marks 15 marks)

Ratio	INDUSTRY	2012	2013	Comment
Quick ratio	1.0			
Current ratio	2.7			
Fixed asset turnover	13.0 times			
Total assets turnover	2.6 times			
Net income to net worth	1.8%			
Net profit margin on sales	3.5%			

Question five

The production manager of XYZ Company, is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in Sh.) are related to volume. The following data presents results of the 12 most recent weeks.

Week No.	Units Produced(X)	Labour Costs(Y)
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

Required:

- a) Estimate the cost function ($Y = a + bx$) using: The high low method (**10 marks**)
- b) Assume that the Company intends to produce, 45 units next period. Estimate the labour cost to be incurred. (**5 marks**)

Question six

- a) Explain any three factors to be considered when selecting an effective labour costing method (**6 marks**)
- b) Explain any three advantages of budgeting to a firm (**6 marks**)
- c) Distinguish between variable costs and fixed costs (**3 marks**)

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