



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS 2020/2021 ACADEMIC YEAR SECOND YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS

COURSE CODE: DBM 013

**COURSE TITLE: FINANCIAL ACCOUNTING
AND COSTING**

DATE: 28TH MAY, 2021

TIME: 0830 – 1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer Question **ONE** and any other **THREE** questions

This paper consists of 5 printed pages. Please turn over.

QUESTION ONE

a) Highlight any five users of accounting information. (5 marks)

b) Explain any four challenges of using accounting ratios in financial statement analysis. (8 marks)

(c) The following information has been extracted from the books of whales Limited:

Profit and loss account for the year to 30 April:

	2000	2001
	Sh.	Sh.
Sales (all credit).	7,650,000	11,500,000
Less: cost of sales	<u>5,800,000</u>	<u>9,430,000</u>
Gross profit	1,850,000	2,070,000
Less : Expenses		
Miscellaneous expenses	150,000	170,000
Loan interest	50,000	350,000
Taxation	600,000	550,000
Divided paid	300,000	300,000
Total expenses	<u>1,100,000</u>	<u>1,370,000</u>
Net profit	<u>750,000</u>	<u>700,000</u>

Balance sheet as at 30 April

	2000	2001
	Sh	Sh.
Fixed assets	10,050,000	11,500,000
Current assets		
Stocks	1,500,000	2,450,000
Trade debtors	1,200,000	3,800,000
Cash	<u>900,000</u>	<u>50,000</u>
	3,600,000	6,300,000
Less: Current liabilities		
Trade creditors	(2,400,000)	(2,700,000)
	<u>1,200,000</u>	<u>3,600,000</u>
Total net assets	<u>11,250,000</u>	<u>14,950,000</u>

Financed by:

Ordinary share capital	5,900,000	5,900,000
Loans (long term)	350,000	3,350,000
Profit and loss account	5,000,000	5,570,000
	<u>11,250,000</u>	<u>14,950,000</u>

Required:

(a) Calculate the following accounting ratios for the two years 2000 and 2001

- | | |
|----------------------------------|------------|
| (i) Gross profit to sales. | [3 marks] |
| (ii) Return on capital employed. | [3 marks] |
| (iii) Debt / equity ratio | [3 marks] |
| (iv) Acid test ratio | [3 marks] |
| (v) Debtors collection period. | [3 marks] |
| (vi) Stock turn over. | [2 marks] |

QUESTION TWO

Juma Ltd. Has an authorized share capital of 500,000 ordinary shares of sh. 10 each. Three hundred thousand ordinary shares have already been issued at par and fully paid for. In June 2000. The company offered 200,000 ordinary shares for public subscription at sh. 10 each as follows.

- Sh. 3 on application
- Sh. 2 on allotment
- Sh. 3 on first call
- Sh. 2 on second call

Applications were received for 350,000 shares. Applications for 50,000 shares were unsuccessful and money was refunded to the applicants. Excess money on application was used to reduce the amount due to allotment. All other monies were paid on time

All funds are deposited in the bank

Required:

- | | |
|--------------------------------------------------------|-----------|
| (a) Journal entries to record the above issue. | (8 marks) |
| (b) Extracts of a balance sheet after the above issue. | (2marks) |

QUESTION THREE

Explain four characteristic of good labour remuneration methods.

[4 marks]

b) A, B, and C have been given work and allotted 60 hours to completion. A takes 52 hours, B takes 45 hours and C takes 50 hours to complete the job. Rates per hour 800/=.

Required;

- i) Compute the total wages to be paid under Halsey's bonus scheme.

[6 mrks]

QUESTION FOUR

i) The following costs were incurred by a manufacturing company

Labour	16
Material	24
Direct Selling cost	4
Fixed	80

The company produces and sales 1,000 units at shs 60 each

Required

- a) Calculate the P/V ratio. **(2 marks)**
b) Calculate the break-even point. **(2 marks)**

ii) Find out the economic order quantity and the number of orders per year from the following information:

Annual consumption: 36,000 units

Purchase price per units: shs. 54

Ordering cost per order: shs . 150

Inventory carrying cost is 20% of the Price per unit. **[6 marks]**

QUESTION FIVE

KG Ltd has incurred the following overhead costs

	Sh(000)
Depreciation of factory	2,000
Factory repairs & maintenance	1,200
Factory office costs (production overheads)	3,000
Depreciation of equipment	1,600
Insurance of equipment	800
Heating & lighting (factory)	1,000
Canteen	400
Total	10,000

Information relating to the production and service departments in the faction is as follows:

	Department		Service	
	Production A	B	X	Y
Floor space (m ³)	1,200	1,600	800	400
Volume (m ³)	3,000	5,000	2,400	1,600
Number of employees	60	40	10	10
Book value of equipment	30,000	20,000	10,000	20,000

Required:

Apportion the overhead costs between the four departments using suitable basis of apportionment. **[10 marks]**

QUESTION SIX

i) You have been given the following information

	KES
Opening stock of materials	125,000
Closing stock of materials	50,000
Opening WIP	10,000
Closing WIP	5,000
Purchase of material	100,000
Direct labour	15,000
Direct expenses	10,000
Carriage inwards	5,000
Factory overheads	36,000
Selling & Distribution overheads	35,000
Administrative overheads	3,000

Compute the value of:

- a) Prime cost **(4 marks)**
- b) Production cost **(3 marks)**

ii) State three essentials of an effective cost control system **(3 marks)**

.....**END**