



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**FIRST YEAR FIRST SEMESTER**  
**MAIN EXAMS**

**FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION**

**COURSE CODE: HRM 810**

**COURSE TITLE: ACCOUNTING AND FINANCIAL MANAGEMENT**

**DATE: 3<sup>RD</sup> JUNE, 2022**

**TIME: 9.00AM - 12NOON**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other THREE (3) Questions in Section B
2. Question **one** carries **40**marks and each of the other THREE questions carry **20** marks each

TIME: 3 Hours

## SECTION A

### QUESTION ONE

a.) Elucidate the purpose of accounting

**(3 marks)**

b.) In a board meeting of newly established limited company, the wife to the founder strongly argued against the accounting costs that were to be paid, claiming that the final accounts being deliberated were not useful to her or any other person.

You are required to discuss the issue at hand and advise the board accordingly  
**(6 Marks)**

c.) Hassan Wario from Tana River County sets up a new business. Before he actually sells anything he has bought motor vehicles of Sh.300, 000, premises of Sh.700, 000, stock of goods Sh.200,000. He still owes Sh.80,000 in respect of them. He had borrowed Sh.400,000 from D Evans. After the events just described and before trading starts, he had Sh.30,000 cash in hand and Sh.60,000 cash at bank.

In respect of the famous accounting equation approach, you are required to calculate the amount of his capital.  
**(2 marks)**

d.) You been invited to a workshop of an association of start-ups in Kilifi County, Kenya in order to facilitate a session on `` Source Documents of Accounting``. Prepare a short brief. **(3 Marks)**

e.) The following business transactions relate to a trading organization in Nairobi, Kenya during the month of March 2018:

2018

Mar 1 Balances brought forward: Cash Sh.230; Bank Sh.4,756.

“ 2 The following paid their accounts by cheque, in each case deducting 5 percent discounts: R Burton Sh.140; E Taylor Sh.220; R Harris Sh.800.

“ 4 Paid rent by cheque Sh.120.

“ 6 J Cotton lent us Sh.1,000 paying by cheque.

“ 8 We paid the following accounts by cheque in each case deducting a 2 ½ per cent cash discount: N Black Sh.360; P Towers Sh.480; C Rowse Sh.300.

“ 10 Paid motor expenses in cash Sh.44.

- “ 12 H Hankins pays his account of Sh.77, by cheque Sh.74, deducting Sh.3 cash discount.
- “ 15 Paid wages in cash Sh.160.
- “ 18 The following paid their accounts by cheque, in each case deducting 5 per cent cash discount: C Winston Sh.260; R Wilson & Son Sh.340; H Winter Sh.460.
- “ 21 Cash withdrawn from the bank Sh.350 for business use.
- “ 24 Cash Drawings Sh.120
- “ 25 Paid T Briers his account of Sh.140, by cash Sh.133, having deducted Sh.7 cash discount.
- “ 29 Bought fixtures paying by cheque Sh.650.
- “ 31 Received commission by cheque Sh.88.

Required: A three-column cashbook written up from the above business transactions , balanced off, and the relevant discount accounts in the general ledger shown. **( 13 Marks)**

f.) Explain the usefulness of Control Accounts in financial record keeping **( 2 Marks)**

g..) An Accountant of a Chinese hardware in Kenya extracted a trial balance on 31 December 2019 that failed to agree by Sh.3, 300, a shortage on the credit side of the trial balance. A suspense account was opened for the difference. In January 2020 the following errors made in 2019 were found:

- (i) Sales daybook had been undercast by Sh.1, 000.
- (ii) Sales of Sh.2, 500 to J Church had been debited in error to J Chane account.
- (iii) Rent account had been undercast by Sh.700.
- (iv) Discounts received account had been under cast by Sh.3, 000.
- (v) The sale of a motor vehicle at book value had been credited in error to Sales account Sh.3, 600.

You are required to:

- i..) Show the journal entries necessary to correct the errors **( 2 Marks)**
- ii..) Draw up the suspense account after the errors described have been corrected. **( 2 Marks ).**
- h..) Briefly outline causes of depreciation to non-current assets **( 2 Marks)**
- i..) A firm lets out part of its properties and receives rent of Sh.2,000 per month, assuming that this is the first year of renting and rent is received in arrears (rent 4 January is received early

Feb), show for the \whole year the Cash Account and the Rent Income Account in the ledger ( 2 Marks )

j.) ``Central Banks are key to the economic development and stability of any nation in the world``, commented one member of the Parliamentary Committee of Finance. In tandem with this statement, illustratively explain the roles of a Central Bank. ( 5 Marks ) (Total 40 Marks)

## SECTION B

### QUESTION TWO

a) Draw up the statement of comprehensive income for the year ended 30 September 2019, and a statement of financial position as at that date from the following trial balance of P Boones:

Account Details	DR	CR
	Shs	Shs
Stock 1 October 2018	23,680	
Carriage outwards	2,000	
Carriage inwards	3,100	
Returns inwards	2,050	
Returns outwards		3,220
Purchases	118,740	
Sales		186,000
Salaries and wages	38,620	
Rent	3,040	
Insurance	780	
Motor expenses	6,640	
Office expenses	2,160	
Lighting and heating expenses	1,660	
General expenses	3,140	
Premises	50,000	
Motor vehicles	18,000	
Fixtures and fittings	3,500	

Debtors	38,960	
Creditors		17,310
Cash at bank	4,820	
Drawings	12,000	
Capital		126,360
	<b>332,890</b>	<b>332,890</b>

(10)

**Marks)**

b.) Illustratively distinguish Bad Debts from Doubtful Debts

( 2 Marks)

c.) Abdullahi and Barre own a grocery shop. Their first financial year ended on 31 December 2019.

The following balances were taken from the books on that date:

		shs		Shs
Capital;;	A-	60,000	B -	48,000
Partnership salaries;;	A -	9,000	B -	6,000
Drawings:	A -	2,000;	B -	13,400

The firm's net profit for the year was shs 32,840. Interest on capital is to be allowed at 10% per year. Profits and losses are to be shared equally.

From the information above prepared the firm's appropriation account and the partners' current accounts

( 8 Marks)

( Total 20 Marks)

### QUESTION THREE

a..) You are in attendance of a meeting with the CEO of a fast growing consumer organization. He has requested you to explain in details the concept of "cost of capital". Briefly explain as requested.

( 4 Marks )

b..) What is a Bond?

( 2 mark )

c.) Three year bonds are issued at face value of Sh100,000 on Jan. 1, 2007, and a stated interest rate of 8%. Calculate the issue price of the bonds assuming a market interest rate of 10%. **(7 Marks)**

d.) Creatively discuss possible sources of finance to youths joining hands in a partnership business. **( 7 Marks ) ( Total 20 Marks)**

#### **QUESTION FOUR**

Barefu Co. Ltd wishes to raise funds amounting to s. 10million to finance a project in the following manner:

Sh. 6million from debt;

Sh. 4 million from floating new ordinary shares

The present capital structure of the company is made up as follows:

1. 600,000 fully paid ordinary shares of sh. 10 each
2. retained earnings of sh. 4 million
3. 200,000, 10% preferences shares of sh. 20 each
4. 40,000 6 % long term debenture of sh. 150 each

The current market value of the company's ordinary shares is sh. 60 per share. The expected ordinary share dividend in a year's is sh. 2.40 per share. The average growth rate in both dividends and earnings has been 10% over the past ten years and this growth rate is expected to be maintained in the foreseeable future.

The company's long term debentures currently change hands for sh. 100 each. The debentures currently change for sh. 100 each. The debentures will mature in 100 years. The preference shares were issued four years ago and still change hands at face value.

#### **Required;**

- i. Compute the component cost of: ordinary share capital, debt capital, preference share capital( 7 marks)
- ii. Compute the company's current weighted average cost of capital **(7 marks)**
- iii. Compute the company's marginal cost of capital if it raised the additional sh. 10 million as envisaged (assume a tax rate of 30%) **(6 marks)**

**(Total 20 Marks)**

### **QUESTION FIVE**

Your attention is drawn to the sudden collapse of one-time giant consumer organization ,Tuskys Supermarkets in East Africa.

- a) Going by the agency theory, discuss the financial challenges Tuskys. ( 15 Marks)
- b) Make recommendations to the Government of Kenya to forestall such happenings in private companies in future( Be guided by the ever present agency problem.( 5 Marks )

**(Total 20 Marks)**