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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th December, 2019
Time: 8.30am – 10.30am

KAC 300 - ADVANCED FINANCIAL ACCOUNTING TECHNIQUES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Differentiate between mergers and acquisitions. (4 Marks)
- b) Discuss the limitations of ratios as a tool for financial analysis. (7 Marks)
- c) Majimbo Limited issued 100,000 ordinary shares with a par value of Kshs.10 each to the public at a price of Ksh. 12.50 per share payable as follows:
- On application Shs2.50
 - On allotment Shs5 (including premium)
 - 1st call Shs3
 - 2nd and final call Shs2

Applications were received for 120,000 shares. Applications for 20,000 shares were rejected using the Majimbo system and application monies refunded. All other applicants were accepted and shares allotted. One applicant, a Mr. Mururu who was allotted 2,000 shares failed to pay for the second and final call. These shares were forfeited and later reissued at shs7 fully paid. Required:

- d) Differentiate between mergers and acquisitions. (4 Marks)
- e) Discuss the limitations of ratios as a tool for financial analysis. (7 Marks)
- f) Majimbo Limited issued 100,000 ordinary shares with a par value of Kshs.10 each to the public at a price of Ksh. 12.50 per share payable as follows:
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 - On allotment Shs5 (including premium)
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Applications were received for 120,000 shares. Applications for 20,000 shares were rejected using the Majimbo system and application monies refunded. All other applicants were accepted and shares allotted.

One applicant, a Mr. Mururu who was allotted 2,000 shares failed to pay for the second and final call. These shares were forfeited and later reissued at shs7 fully paid. Required:

- i) Bank account (5 Marks)
- ii) Relevant call accounts (10 Marks)
- iii) Balance sheet after all the monies were received (4 Marks)

QUESTION TWO (20 MARKS)

- a) For any business organisation liquidity is more important than profitability. Discuss. (8 Marks)
- b) Power sharing Company ltd had the following balance sheet as at 31 December 2012

	<u>2016</u>	<u>2017</u>
	Ksh '000'	ksh'000'
Fixed assets at cost	23,000	25,000
Less Depreciation	(5,650)	(6,200)
	17,350	18,800
Stocks	12,000	14,695
Debtors	4,200	4,150
Cash at bank	4,550	9,255
	38,100	46,900
Share capital	18,000	23,000
Retained profits	7,500	9,200
10% Debentures	6,000	7,500
Provisions for taxation	2,900	3,200
Creditors	3,200	3,400
Proposed Dividends	<u>500</u>	<u>600</u>
	<u>38,100</u>	<u>46,900</u>

Additional information

During the year fixed assets were purchased at a cost of ksh5, 600,000

Fixed assets which cost ksh 3,600,000 were disposed off for ksh 2,500,000. The book value of the assets were ksh 1,500,000 and the profit has been included in retained profits.

Required;

Prepare a cash flow statement for the year ended 31/12/2017.

(12 Marks)

QUESTION THREE (20 MARKS)

- a) Discuss any three defensive tactics that can be used by a business facing a hostile takeover. (7 Marks)
- b) The warehouse of Haraka Ltd was destroyed by fire on 1 Nov 2018. The goods in the warehouse were insured to a value of sh. 600000. The following information is available.

Balance as at 30 June 2018.

Inventory	324000
Debtors	412000
Creditors	27800

Transactions to 31 Oct 2018.

Cash received from debtors	3680000
Debts written off	12000
Cash paid to creditors	278600
Discount allowed	4000

Balance as at 31 Oct 2018.

Debtors	568000
Creditors	460000

The total sales for the period include sh. 672000 for goods which had the selling price reduced by 50 percent and sh. 96000 where the selling price had been reduced by 20%.

The normal markup is 50% on cost and except as indicated differently above all sales were at the same price. The cost price of inventory unaffected by the fire was sh. 100000, the rest of the inventory was completely destroyed. Compute the insurance claim.

(13 Marks)

QUESTION FOUR (20 MARKS)

- a) Using hypothetical figures differentiate between bonus issue, rights issue and stock split. (9 Marks)
- b) Discuss any four advantages associated with a merger. (8 Marks)
- c) Differentiate between a management buy-out and a management buy-in. (3 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the reasons that make small business people maintain single entry and incomplete records. (8 Marks)
- b) The following are financial statements of XYZ Company Limited. You are required to compute relevant accounting ratios for the two years 2015 and 2016.

INCOME STATEMENT for the year ended 31st December

	Figures in '000	
	<u>2015</u>	<u>2016</u>
	<u>Shs</u>	<u>Shs</u>
Sales	2000	3200
Less cost of sales	<u>(1100)</u>	<u>(1800)</u>
Gross profit	900	1400
Trading expenses	<u>(450)</u>	<u>(550)</u>
Trading profit	450	850
Debenture interest	<u>(25)</u>	<u>(25)</u>
Profit before tax	425	825
Corporation tax	<u>(160)</u>	<u>(320)</u>
Profit after tax	265	505
Ordinary share dividend	<u>(125)</u>	<u>(175)</u>
Undistributed profits	<u>140</u>	<u>330</u>

BALANCE SHEET as at 31st December ('000)

	<u>2005</u>		<u>2006</u>		<u>2005</u>	<u>2006</u>
	<u>Shs</u>	<u>Shs</u>	<u>Shs</u>		<u>Shs</u>	<u>Shs</u>
Non-current Assets	1000		1400		O.S.C.	500
Less depreciation	<u>(200)</u>	800	<u>(250)</u>	1150		500
					Undistributed profits	350
						680
<u>CURRENT ASSETS</u>						
Stock	400		550			
					10% Debentures	250
Debtors	250		350			110
Cash	<u>80</u>	730	<u>0</u>	900		
<u>CURRENT LIABILITIES</u>						
Creditors	145		200			
Taxation	160		320			
Proposed dividend	125		175			
Bank OD	<u>0</u>	<u>(430)</u>	<u>65</u>	<u>(760)</u>		
		<u>1100</u>		<u>1290</u>	<u>1100</u>	<u>1290</u>

(12 Marks)