



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

**CAC 422- EMERGING AND CONTEMPORARY ISSUES IN FINANCIAL AND
MANAGEMENT ACCOUNTING**

Date: JULY 2015	Duration: 2 Hours
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INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions
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- Q1. a) Distinguish between EVA[®] and Residue income measures of performance. **(6 marks)**
- b) Highlight how challenges of valuing human resources can be solved in the determination of future incomes. **(4 marks)**
- c) Explain four reasons why modern firms are engaging themselves with community work. **(8 marks)**
- d) i) Managers must ensure timely disclosure of information, open leadership and effectiveness are always practiced in their organizations. Discuss. **(6 marks)**
- ii) Highlight the importance of communication in value based management **(3 marks)**
- Q2. a) Njere humud Ltd has been operating in the telecommunication industry for now thirty years and its management has incorporated all the stakeholder in its strategic plans. Below is Data relating to the firm for the year ending 31/12/2014.

	Shs.
Lay offs & involuntary termination 1000,000	
Cost towards improving a roundabout	700,000
Non-discriminatory staff medical scheme	4500,000
Cost towards staff training	1,500,000
Subsidized hotel facilities	2,000,000
Leave encashment	800,000
Generation of job opportunities	1800,000
Taxes paid to county authorities	2,500,000
Increases in cost of living due to the firm's existence	1,055,000
County water and sewerage enjoyed consumed	1,205,000
Extra work put by staff	1,700,500
Education facilities for staff children	800,000
Electricity consumed within the vicinity	500,000
National government taxes paid	800,000
Contribution towards the construction of a local church	505,000
Security naturally provided by the community	450,000

Required:

- a) Prepare a social income statement for Njere humud company for the year ending 31/12/2014. **(8 marks)**
- b) Highlight three differences between human capital and non-human capital.

(6 marks)

- c) Discuss three weaknesses of share option plans in use for remunerating top management in firms at their growth stage. **(6 marks)**

- Q3. a) Kard Ltd is operating three hotel branches in the country. Mombasa, Nairobi and Eldoret. The financial data for these three branches is presented as below:

	Mombasa	Nairobi	Eldoret	Total
Hotel revenue	1200,000	1400,000	3185,000	5785,000
Hotel variables cost	310,000	375,000	995,000	1680,000
Hotel fixed cost	<u>650,000</u>	<u>725,000</u>	<u>1680,000</u>	<u>3055,000</u>
Hotel opening Income	240,000	300,000	510,000	1050,000
Interest cost on L.T loan at 10%				<u>(450,000)</u>
Profit before taxes				600,000
Tax 30%				<u>(180,000)</u>
Net Income				420,000
<u>Net book values at the end of 2014</u>				
Current Assets	400,000	500,000	600,000	1500,000
L.T Assets	<u>600,000</u>	<u>1,500,000</u>	<u>2400,000</u>	<u>4500,000</u>
Total Assets	1000,000	2000,000	3000,000	<u>6,000,000</u>
Current liabilities	50,000	150,000	300,000	500,000
L.T debt	-	-	-	4500,000
Shareholders equity				<u>1000,000</u>
Total liabilities as shareholder equity				<u>6,000,000</u>

Required:

- i) Calculate R.O.I for each branch based on Dupont Method taking only these assets financed by long term sources of finance. **(6 marks)**
- ii) Calculate the residue income for the three hotels based on a required rate of value of 12% on assets financed by L.T source of finances.

(6 marks)

iii) Comment on your results above and advise the firm on how to improve R.O.I if its target ROI is 30% **(3 marks)**

b) Highlight five challenges of knowledge management's firm **(5 marks)**

Q4. a) Saskatoon Farmers Cooperative Society employs Mr. Oloo as the key manager in their societies entire branches in the country. The following relates to his data in earnings, age and risk.

Name	Mr. Oloo
Age	42
Risk factor	12%
Remuneration-year 1-5	\$120,000 pa
year 6-10	\$200,000 p.a
Mortality Rate	0.7

Required:

i) Using Ivy Fishers' present value model. Calculate Mr. Oloo Human resource value. **(6 marks)**

ii) Highlight two assumptions you have made in computing (i) above **(4 marks)**

b) Discuss three essential components of value creation in modern firms. **(4 marks)**

c) Describe the usefulness of the accountant in generating social responsibility accounting information. **(4 marks)**

Formulae

$$\text{Present value of \$1.00} = \frac{I}{(I+r)^n}$$

$$\text{Present value of an annuity} = \left(\frac{1 - \frac{1}{(1+r)^n}}{r} \right)$$

END