



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST - DECEMBER 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

MBA REGULAR PROGRAMME

CAC 510: FINANCIAL ACCOUNTING

Date: DECEMBER 2016

Duration: 3 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) “Businesses should be characterized by their capacity to serve the common good of society through the production of useful goods and services.” (Quote from “Compendium of the Social Doctrine of the church” Art 338).
- i) In seeking to produce the said goods and services, for whom should businesses create wealth? Explain your answer.
(2 marks)
 - ii) What is the role of an MBA graduate in business management?
(3 marks)
- b) Ms.Mutindi has been retrenched. She is tired of being employed and has decided to start a business of her own. She has approached you for advice on the different types of business she may start. Summarize for her the three basic alternatives indicating in each case the advantages and disadvantages.
(4 marks)
- c) The comparative balance sheet of Demiski Company appears below:

Demiski COMPANY
Comparative Balance Sheet as at December 31 (sh'000)

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets	450	280
Plant assets	<u>550</u>	<u>520</u>
Total assets	<u>1,000</u>	<u>800</u>
<u>Liabilities and stockholders' equity</u>		
Current liabilities	180	120
Long-term debt	250	160
Common stock	310	320
Retained earnings	<u>260</u>	<u>200</u>
Total liabilities and stockholders' equity	<u>1,000</u>	<u>800</u>

Required

- i. Using horizontal analysis, show the percentage change for each balance sheet item using 2014 as a base year.

- ii. Using vertical analysis, prepare a common size comparative balance sheet.

Read the case Fantasia, SpA and answer parts (d), (e), (f) and (g) of the question below.

- d) Compute the following ratios for 2003:
 - i) Gross profit ratio
 - ii) Net profit ratio
 Interpret for Ponti, the figures you have computed. **(4 marks)**

- e)
 - i) Determine the net cash flows from operating activities for the year 2003. **(2 marks)**
 - ii) Determine the net cash flows from financing activities for the year 2003. **(2 marks)**

- f) Write journal entries required to record the following transactions for Fantasia SpA for year 2004.
 - i) Purchase of materials
 - ii) Payment to suppliers
 - iii) Purchase of plant and equipment **(3 marks)**

- g) Evaluate whether Fantasia SpA has been adhering to the official rule regarding collection of receivables and payment to suppliers. Show your computations if any. **(2 marks)**

- Q2. Clearly explain what is meant by the following terms in the preparation of accounting reports.
- a) Conceptual framework **(3 marks)**
 - b) Relevance **(3 marks)**
 - c) Accruals accounting **(3 marks)**
 - d) Basic accounting equation **(3 marks)**
 - e) Going concern **(3 marks)**
- Q3. With reference to company annual reports, explain: -
- i) the contents
 - ii) the importance of the following: -
- a) Management Discussion and Analysis (MD&A) report **(5 marks)**
 - b) Auditor's report **(5 marks)**
 - c) Notes to the accounts **(5 marks)**
- Q4. a) Assets may be valued in several ways in preparation of financial reports. Give a brief summary of two of these ways. **(6 marks)**
- b) The concept of depreciation is usually misunderstood as used in accounting. Clarify what this concept involves, and how it is recognized in financial accounting. **(9 marks)**

END