



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2013/2014**

FIRST YEAR FIRST SEMESTER EXAMINATIONS FOR THE  
DEGREE OF MASTER OF HUMAN RESOURCE MANAGEMENT  
(CITY CAMPUS - EVENING)

**BMM 810: ACCOUNTING AND FINANCIAL  
MANAGEMENT**

Date: 16<sup>th</sup> July, 2014

Time: 5.30 – 8.30 p.m.

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**INSTRUCTIONS:**

- Answer Question ONE and any other THREE questions.
- Question one carries 30 marks, the rest 15 marks each.



### QUESTION 1 (COMPULSORY)

- a) "Accounting is a very dynamic profession which is constantly adapting itself to varying needs of its users" In View of this statement discuss the users of accounting information (10 marks)
- b) Mr. John, a wealthy businessman started a business on 1<sup>st</sup> January 2012. The following transactions took place during the first month of his business.

DATE:	TRANSACTIONS
<u>January 2012</u>	
1	Started business with Sh. 1,000,000 in cash
3	Deposited Sh. 800,000 of the cash into Business Bank account
6	Bought a Van from General Motors on credit for Sh. 300,000
9	He rented premises by paying Sh. 100,000 through Cheque
12	Bought goods worth Sh. 400,000 on credit
15	Paid shop expenses amounting to Sh. 150,000 by Cheque
18	Sold goods on credit for Sh. 300,000
21	Paid Sh. 300,000 for the Van to General Motors by Cheque
24	Received Sh. 200,000 from debtors by Cheque
27	Paid Sh. 50,000 to creditors by Cheque
31	Purchased stock worth Sh. 300,000 on credit
31	Cash sales for the month amounted to Sh. 200,000

Required:

- i. Enter the above transactions in Journal Entries
- ii. Post the transactions in appropriate ledger accounts duly balanced
- iii. Extract a trial balance as at 31<sup>st</sup> January 2012 (20 Marks)

## QUESTION 2

- a) In reference to Agency Theory, describe five instances in which the interests of the management of a company might conflict with those of the shareholders and suggest mechanisms for their resolutions. .  
(10 marks)
- b) Define the concept “ Corporate Governance” and explain the rationale for corporate governance on organizations (5 marks)

### QUESTION 3

From the following trial balance of P Boones for the year ended 30 September 2013,

	<u>Dr</u> <u>Kshs</u>	<u>Cr</u> <u>Kshs</u>
Stock 1 October 2012	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
	<u>332,890</u>	<u>332,890</u>

Stock as at 30 September 2013                      29,460

**Required:**

- i. Prepare a Trading and Profit and Loss account for the year ended 30 September 2013, and
- ii. Balance Sheet as at that date.

(15 marks)

#### QUESTION 4

A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows.

<i>YEAR</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Project A	Shs 4,000	4,000	4,000	4,000	4,000
Project B	Shs 6,000	3,000	2,000	5,000	5,000

#### Required:

Calculate for each project

- The payback period
- The average rate of return
- The net present value

Which project should be accepted under each technique and Why?

(10marks)

- a) "The finance manager spends most of her time making managerial finance decisions as opposed to routine functions". Discuss.

(5 Marks)

### QUESTION 5

(a) The following information relates to Company X and Y.

	Company X	Company Y
Present earnings	Shs 20,000,000	Shs 6,000,000
No. of shares	6,000,000,000	2,000,000
Earnings per share	Shs 3.33	Shs 3.00
Market price per share	Shs 60.00	Shs 30.00
Price/earning ratio	18	10

Company X offers 0.667 shares for each share of Company Y to acquire the company.

Required

- i. Calculate the market price exchange ratio (2 mark)
  - ii. If the two companies were to merge, calculate the market price per share that the shareholders of Y are offered a share. (3 mark)
- (b) "Synergy is the necessary mainspring of a successful merger but some companies can oppose mergers" In light of this statement, discuss five anti-takeover defenses that a company can implement to discourage takeover (10 marks)