TOM MBOYA UNIVERSITY
MAC 407: PRINCIPLES OF FINANCIAL MANAGEMENT
REGULAR EXAMINATION

QUESTION ONE (30 MARKS)

(a) Describe the role of the International Accounting Standards Board (IASB) in the regulation of financial reporting. [5 Marks]

(b) Explain the likely implications that will arise from a company preparing financial statements which do not comply with relevant accounting standards and the external auditor reporting that failure to comply in the audit report. [5 Marks]

(c) There are many groups involved in running a company: shareholders, managers, employees, lenders, customers, suppliers, the government. We must consider their interests and their role. Describe the objectives of the following parties; [10 Marks]

- (i) managers
- (ii) banks and other lenders
- (iii) employees
- (iv) customers
- (v) government.

(d) One theory that tries to explain these complex relationships and conflicting objectives within an organisation is the agency theory. Describe the agency theory and how it helps in conflict resolution. [10 Marks]

QUESTION TWO (20 MARKS)

(a) In many countries, national legislation may be in place to dictate what kind of information should be published in financial statements. For example, in the UK and Kenya, the Companies Act explicitly requires a number of documents.
State and describe these documents in detail. [10 Marks]

(b) Describe the contents of an auditors report. [10 Marks]

QUESTION THREE (20 MARKS)

(a) Define the following terms: [10 Marks]

- (i)) trial balance
- (ii)) cashflow statement
- (iii)) statement of financial position
- (iv)) income statement
- (v)) statement of changes in equity.

(b) Describe the following accounting concepts in detail and explain how each affects the content of the financial statements; [6 Marks]

- (i) the cost concept (often called historical cost)
- (ii) the matching concept

(iii) the money measurement concept

(c) Classify each of the following items, which can appear in a financial statement, as a non-current asset (NA), a current asset (CA), a non-current liability (NL), a current liability (CL) or as capital (C): [4 Marks]
Cash
Trade receivable
Building
Tax due
Trade payable
Inventories
Ordinary Shares
Debenture

QUESTION FOUR (20 MARKS)

(a) The following information has been extracted from the accounting records of Aztec plc:

Trial Balance at 31 July 2011

	£000	*£000s*
Administration costs	800	
Marketing expenses	500	
Bank		700
Trade receivables (debtors)	1,300	
Factory – cost	23,300	
Factory – depreciation		1,800
Factory running costs	1,200	
Directors' remuneration	600	
Interim dividend paid	100	
Interest	1,680	
Long-term loans		12,000
Machinery – cost	15,000	
Machinery – depreciation		8,000
Manufacturing wages	1,700	
Purchases	1,600	
Retained earnings at 31 July 2010		980
Sales		13,000
Sales salaries	1,600	
Share capital (50*p* shares)		13,000
Inventories at 31 July 2010	700	
Trade payables (creditors)		600
	50,080	*50,080*

Notes;

- The corporation tax charge for the year has been estimated at č300,000.
- At the year-end the directors had the factory professionally revalued. The valuers report estimates the value of the property at č25,000,000. This value is to be incorporated into the balance sheet.
- Depreciation for the year is charged at 1% of cost for the factory and at 20the reducing balance for the machinery.

- Inventories at 31st July 2011 were valued at č550,000.
- After the year-end, an invoice for č100,000 was received for marketing costs incurred in the period 1 April-31st July 2011.

Prepare Aztec plcs

(i) statement of comprehensive income for the year ended 31 July 2011 . [10 Marks]

(ii) statement of financial position as at that date. [10 Marks]

QUESTION FIVE (20 MARKS)

(a) State and describe the awkward items in a trial balance. [10 Marks]

(b) Using the information given below, draw up LoadsaMoneys cashflow statement for 2011 and comment on the cash movements and the final cash position.[10 Marks]

During 2011, LoadsaMoney had the following items of income and expenditure:

	£
increase in stocks of finished goods	13,500
staff cost	47,300
income from WaddsaCash dividends	4,200
turnover	362,000
tax paid	49,120
increase in cash	23,780
dividends paid	15,000
increase in work-in-progress	2,100
interest received on 3-month bank deposit	3,500
interest paid on loan stock	5,500
2011 sales for which payment not yet received	71,000
payments for 2010 sales received in 2011	63,000
2011 raw material purchases not yet paid for	37,000
2010 purchases paid for in 2011	40,000

The company bought 3 bank note printing machines in January 2011 for č35,000 each. The total depreciation charge for 2011 was č22,450.

On 1 January 2011, the company had č50,000 in cash and č98,000 in a three-month bank deposit. By 31 December 2011, it had a č73,780 in cash and č95,000 in three- month bank deposit.

LoadsaMoneys operating profit for 2011 was č191,850.