



UGANDA MANAGEMENT INSTITUTE

POSTGRADUATE DIPLOMA IN (DHRM): K'LA; MRA; GULU,
MBL: (DPAM): K'LA; MRA; GULU, MBL: (PSCM)

SECOND SEMESTER EXAMS 2015/2016

**MODULE: FINANCIAL ACCOUNTING AND
MANAGEMENT**

Date: Monday 3 October 2016

Time: 09.00 AM – 12.00 NOON

INSTRUCTIONS

1. Answer **FOUR** Questions.
2. Question **ONE** of Section A is compulsory and carries 40 marks.
3. Answer any other **THREE** Questions from Section **B**. Each question carries **20 marks**.
4. Write clearly and legibly.
5. **Do not** write anything on the question paper.
6. **Do not** take Mobile Phones into the examination room.
7. Follow the instructions of the examination supervisor.
8. Indicate questions answered on the Answer Sheet in the column of Questions.
9. The Present Value Table is given at the end of this question paper.

This paper consists of 9 printed pages

-GOOD LUCK-

SECTION A:

COMPULSORY

40 MARKS

QUESTION ONE

- (a) Give outline notes on the following:
- (i) Any two Features of Capital Investment Projects. **(2 Marks)**
 - (ii) Five Objectives of Internal Control in organizations. **(5 Marks)**
 - (iii) Four benefits of Planning in organizations. **(8 Marks)**
- (b) Uganda Management Institute has obtained funding from the African Development Bank to construct Study Center facilities in Mbarara, Gulu and Mbale to house its programs in those centers. It is projected that when these facilities are complete, operational costs for the Institute will greatly reduce by the amount of rent it is currently paying to run its programs in those areas.

The construction and furnishing of the Gulu Facility is estimated to cost UGX 520,000,000. When this facility is complete, net cash revenues that will accrue to the Institute from Gulu Study Center has been projected as follows:

| Year | Net cash inflows in UGX |
|--------|-------------------------|
| Year 1 | 155,000,000 |
| Year 2 | 165,000,000 |
| Year 3 | 150,000,000 |
| Year 4 | 150,000,000 |
| Year 5 | 140,000,000 |

The African Development Bank funds infrastructural projects in education at a cost of 16% per annum.

Required:

- (i) What is the Pay Back Period of the project? **(3 Marks)**
- (ii) Determine the Net Present Value of the project? **(6 Marks)**
- (iii) Determine the Internal Rate of Return of the Project. **(8 Marks)**
- (iv) What is the Profitability Index of the project? **(4 Marks)**
- (v) Using the IRR computed above what advice would you give to UMI in respect of this project? **(4 Marks)**

(TOTAL 40 MARKS)

SECTION B: ANSWER ANY THREE QUESTIONS FROM THIS SECTION

QUESTION TWO

- (a) What are the limitations of Financial Statement Analysis? **(5 Marks)**
- (b) Find below the Financial Statements of Ekit Garments Limited for two financial years

| EKIT GARMENTS LIMITED | | | | |
|--|----------------------------|----------------------|----------------------------|----------------------|
| STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED: | | | | |
| | 31 st DEC 2014' | | 31 st DEC 2015' | |
| | UGX "000" | UGX "000" | UGX "000" | UGX "000" |
| Sales | | 56,000 | | 84,000 |
| Less: Sales Returns | | <u>1,500</u> | | <u>4,000</u> |
| Net Sales | | 54,500 | | 80,000 |
| Cost of sales: | | | | |
| Opening Stock | 7,700 | | 9,200 | |
| Purchases | <u>29,000</u> | | 39,120 | |
| | 36,700 | | 48,320 | |
| Less Closing Stocks | <u>9,200</u> | | <u>9,500</u> | |
| Cost of Goods Sold | | <u>27,500</u> | | <u>38,820</u> |
| Gross Profit | | 27,000 | | 41,180 |
| Operating Expenses: | | | | |
| Rents and Rates | 2,500 | | 4,000 | |
| Electricity and Water | 2,700 | | 6,500 | |
| Salaries and Wages | 3,600 | | 5,420 | |
| Motor Vehicle Fuel | 1,500 | | 2,700 | |
| Interest on overdraft | 800 | | 1,200 | |
| Depreciation on Fixed Assets | <u>2,400</u> | | <u>3,300</u> | |
| | | <u>13,500</u> | | <u>23,120</u> |
| NET PROFIT | | <u>13,500</u> | | <u>18,060</u> |

| EKIT GARMENTS LIMITED | | | | |
|--|---------------------------|----------------------|---------------------------|----------------------|
| STATEMENT OF FINANCIAL POSITION AS AT: | | | | |
| | 31 st DEC 2014 | | 31 st DEC 2015 | |
| ASSETS | UGX "000" | UGX "000" | UGX "000" | UGX "000" |
| Fixed Assets | 8,000 | | 12,000 | |
| Less: Depreciation | <u>800</u> | | <u>1,200</u> | |
| Net Fixed Assets | | 7,200 | | 10,800 |
| Current Assets | | | | |
| Cash at Hand | 2,200 | | 3,500 | |
| Cash at Bank | 5,700 | | 7,540 | |
| Inventory | 9,200 | | 9,500 | |
| Prepaid Expenses | 1,800 | | 2,450 | |
| Trade Debtors | <u>3,400</u> | | <u>5,300</u> | |
| Total Current Assets | | <u>22,300</u> | | <u>28,290</u> |
| TOTAL ASSETS | | <u><u>29,500</u></u> | | <u><u>39,090</u></u> |
| CAPITAL AND LIABILITIES | | | | |
| Capital b/d | | 11,000 | | 10,000 |
| Less Drawings | | <u>1,000</u> | | <u>800</u> |
| Net Capital | | 10,000 | | 9,200 |
| Housing Finance Loan (2020) | | 10,000 | | 14,000 |
| Trade Creditors | | 6,500 | | 11,000 |
| Outstanding expenses | | <u>3,000</u> | | <u>4,890</u> |
| TOTAL CAPITAL & LIABILITIES | | <u><u>29,500</u></u> | | <u><u>39,090</u></u> |

Required:

Using the following ratios, compare the performance of the business in the two years:

- (i) Debtors Turnover Ratio
- (ii) Net Profit Ratio
- (iii) Current Ratio
- (iv) Return on Capital Employed
- (v) Inventory Turnover Days

(15 Marks)**(TOTAL 20 MARKS)****QUESTION TWO**

- (a) Briefly discuss the meaning and purpose of the Statement of Comprehensive Income and Statement of Financial Position. **(4 Marks)**
- (b) The following Trial Balance was extracted from the account books of Amonyi and AyugiEnterprises as at December 31st 2015.

| | DR | CR |
|-------------------------------|-------------------|-------------------|
| Capital | | 10,000,000 |
| Sales | | 10,250,000 |
| Discount Received | | 125,000 |
| Land and Buildings | 7,500,000 | |
| Purchases | 6,305,000 | |
| Inventory on 1st January 2015 | 2,100,000 | |
| Returns outwards | | 100,000 |
| Returns inwards | 150,000 | |
| Bank Overdraft | | 1,600,000 |
| Discount Allowed | 72,000 | |
| Furniture & Fittings | 600,000 | |
| Trade Creditors | | 959,000 |
| Debtors | 150,000 | |
| Salaries and Wages | 900,000 | |
| Electricity and Water | 375,000 | |
| Stationery | 302,000 | |
| Motor Vehicle Fuel | 1,450,000 | |
| Motor Vehicles at cost | 4,100,000 | |
| Loan Repayable 2019 | | 3,500,000 |
| Cash at Hand | 130,000 | |
| Cash at Bank | 2,400,000 | |
| | <u>26,534,000</u> | <u>26,534,000</u> |

Additional Information

- (i) Closing stocks as on December 31st 2015 was valued at UGX3,200,000.
- (ii) Salaries and wages of UGX 900,000 include salary advance to PriscaAkulo, an employee, of UGX 100,000 recoverable in 2016;
- (iii) A sum of UGX 25,000 is still payable to UMEME for electricity consumed during the period.
- (iv) Depreciation is to be provided at 10% on Motor Vehicles and at 5% on Furniture and Fittings.

Required:

Prepare the Statement of Comprehensive Income and Statement of Financial Position for Amonyi and Ayugi using the above information. **(16 Marks)**

(TOTAL 20 MARKS)

QUESTION FOUR

Rebecca Okaje, a lecturer at Busia Law Institute, picked her Centenary Bank Statement for the month of September 2016 and found that it had a credit balance of UGX3,475,000. Her cashbook at home however showed a debit balance of UGX3,530,750. Because of this difference, Rebecca comes to you for advise.

On scrutinizing Rebecca's Bank Statement and Cash Book, you discover the following:

- i) UGX 500,000/= which Rebecca gave to her brother on 10th September 2016 to deposit on her account was never deposited. The brother disappeared with the money.
- ii) During the month of September 2016, the bank deducted UGX 100,000 from Rebecca's account being interest on salary loan she had got from the bank.
- iii) Rebecca's workmate Mr. Wanyama who had borrowed UGX 150,000 from her paid by directly depositing the amount on Rebecca's bank account. Rebecca has no record of this in her cash book.
- iv) The bank charges of UGX25,000/= appearing in Rebecca's bank statement does not appear in her cash book.
- v) Rebecca issued a cheque of UGX 900,000 to Uganda Management Institute during the month being her second semester fees. By the end of September 2016, UMI had not presented this cheque payment
- vi) On Rebecca's standing order with the bank, the bank paid UGX 60,000 to Busia Water Board. This transaction is not yet recorded in Rebecca's cashbook.

- vii) During the month, Rebecca received a cheque of UGX 250,000 from Mr. Wasagame, her debtor. She deposited this cheque on her account on 15th September 2016. This cheque was however dishonoured. Rebecca has not yet taken note of this development in her cash book.
- viii) Rebecca is a pensioner with Government of Uganda having retired from Public Service. On September 25th the bank received an EFT of UGX 72,000 being Rebecca's pension for the month. The bank credited her account with this amount but also charged her Sh2,750 as bank charges for the EFT. No record of this appears in Rebecca's cashbook.
- ix) Rebecca's received a cheque of UGX 240,000 from Busia Law Institute being her teaching allowance for September 2016. She entered this transaction in cashbook and deposited the cheque on her account. By the end of September 2016, there was still no record of this on her bank statement.

Required:

- a) Give Rebecca any four reasons why the cashbook balance may differ from the bank statement balance on the same date. **(4 Marks)**
- b) Give Rebecca any three reasons why it is important to regularly prepare bank reconciliation statements. **(3 Marks)**
- c) Starting with updating the cash book, prepare for Rebecca a Bank reconciliation Statement as at 30th September 2016.

(13 Marks)

(TOTAL 20 MARKS)

QUESTION FIVE

- (a) In management of any organization, having too little cash or too much cash at any one time are both problems.
- (i) In your view, what are the problems associated with having either too little or too much cash in an organization? **(6 Marks)**
- (ii) If you were asked to determine the optimal cash balance in your organization, what factors would you need to consider? **(4 Marks)**
- (b) The following data was extracted from the planning records of Doreen and Benson Primary School as at the close of Second Term 2016.

The school closed Term 2 of 2016 on 15th August 2016 with a balance of Shs, 2,500,000 on its account. Third Term is expected to open on 1st September 2016 and close on 30th November 2016.

The school has a pupil enrollment of 600 pupils and all these are expected back in third term. The school fees per pupil are UGX300,000 per term. Normally 50% of the fees is collected in the first month of opening, 40% in the second month and 10% in the third month.

The planned expenses for the school for term three are as follows:

- (i) Teaching Staff Salary Top-up 8,000,000= per month;
- (ii) Student feeding 8,000,000 per month;
- (iii) Office Running costs UGX2,500,000= per month.
- (iv) Capital Development is planned at UGX 52,000,000= per month.

The school also receives support from World Vision Kabale at the rate of UGX15,000 per pupil per term. This money is expected in the month of October 2016.

The newly elected Woman Member of Parliament for Kabale District Hon. Tophius Chali also pledged support to the school of UGX 5,000,000 towards the school construction project. This money is expected in October 2016.

Required

Prepare a Cash Budget for the school for 3rd Term 2016 and advise the school management accordingly. **(10 Marks)**

(TOTAL 20 MARKS)

QUESTION SIX

Write short notes on the following:

- (a) Five factors that influence working capital levels in an organization;
- (b) Five internal control conditions that make fraud thrive in organizations;
- (c) Five internal factors that influence dividend decisions of a firm;
- (d) Five sources of short-term funds for a business organization.

(20 MARKS)

PRESENT VALUE TABLE

| Year | INTEREST RATE | | | | | | | | | | | | |
|-----------|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1% | 2% | 4% | 6% | 8% | 10% | 12% | 14% | 15% | 16% | 18% | 20% | 25% |
| 1 | 0.990 | 0.980 | 0.962 | 0.943 | 0.926 | 0.909 | 0.893 | 0.877 | 0.870 | 0.862 | 0.847 | 0.833 | 0.800 |
| 2 | 0.980 | 0.961 | 0.925 | 0.890 | 0.857 | 0.826 | 0.797 | 0.769 | 0.756 | 0.743 | 0.718 | 0.694 | 0.640 |
| 3 | 0.971 | 0.942 | 0.889 | 0.840 | 0.794 | 0.751 | 0.712 | 0.675 | 0.658 | 0.641 | 0.609 | 0.579 | 0.512 |
| 4 | 0.961 | 0.924 | 0.855 | 0.792 | 0.735 | 0.683 | 0.636 | 0.592 | 0.572 | 0.552 | 0.516 | 0.482 | 0.410 |
| 5 | 0.951 | 0.906 | 0.822 | 0.747 | 0.681 | 0.621 | 0.567 | 0.519 | 0.497 | 0.476 | 0.437 | 0.402 | 0.328 |
| 6 | 0.942 | 0.888 | 0.790 | 0.705 | 0.630 | 0.564 | 0.507 | 0.456 | 0.432 | 0.410 | 0.370 | 0.335 | 0.262 |
| 7 | 0.933 | 0.871 | 0.760 | 0.665 | 0.583 | 0.513 | 0.452 | 0.400 | 0.376 | 0.354 | 0.314 | 0.279 | 0.210 |
| 8 | 0.923 | 0.853 | 0.731 | 0.627 | 0.540 | 0.467 | 0.404 | 0.351 | 0.327 | 0.305 | 0.266 | 0.233 | 0.168 |
| 9 | 0.914 | 0.837 | 0.703 | 0.592 | 0.500 | 0.424 | 0.361 | 0.308 | 0.284 | 0.263 | 0.225 | 0.194 | 0.134 |
| 10 | 0.905 | 0.820 | 0.676 | 0.558 | 0.463 | 0.386 | 0.322 | 0.270 | 0.247 | 0.227 | 0.191 | 0.162 | 0.107 |
| 11 | 0.896 | 0.804 | 0.650 | 0.527 | 0.429 | 0.350 | 0.287 | 0.237 | 0.215 | 0.195 | 0.162 | 0.135 | 0.086 |
| 12 | 0.887 | 0.788 | 0.625 | 0.497 | 0.397 | 0.319 | 0.257 | 0.208 | 0.187 | 0.168 | 0.137 | 0.112 | 0.069 |
| 13 | 0.879 | 0.773 | 0.601 | 0.469 | 0.368 | 0.290 | 0.229 | 0.182 | 0.163 | 0.145 | 0.116 | 0.093 | 0.055 |
| 14 | 0.870 | 0.758 | 0.577 | 0.442 | 0.340 | 0.263 | 0.205 | 0.160 | 0.141 | 0.125 | 0.099 | 0.078 | 0.044 |
| 15 | 0.861 | 0.743 | 0.555 | 0.417 | 0.315 | 0.239 | 0.183 | 0.140 | 0.123 | 0.108 | 0.084 | 0.065 | 0.035 |

END