



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF SCIENCE IN FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BFS 1202: ACCOUNTING IN BUSINESS II**

**DATE:** Monday, 10<sup>th</sup> March 2025

**TIME:** 16:00-18:00

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

**[30 MARKS]**

- a) Discuss the importance of non-cash adjustments and changes in working capital in the preparation of the cash flow statement using the indirect method. **[5 marks]**
- b) Describe the key components of a company's financial statements and explain the role of standardized formats, such as IFRS or GAAP, in their preparation. **[5 marks]**
- c) The partnership of A, B, and C is preparing its financial statements for the year ending December 31, 2024. The following information is provided along with the trial balance as of December 31, 2024:

**Trial Balance as at December 31, 2024:**

<b>Account</b>	<b>Debit (Ksh)</b>	<b>Credit (Ksh)</b>
Cash	15,000	
Accounts Receivable	10,000	
Inventory	12,000	
Capital Accounts:		
A's Capital		40,000
B's Capital		30,000
C's Capital		20,000
Current Accounts:		
A's Current	3,000	

B's Current	2,000	
C's Current	1,000	
Salaries Payable	8,000	
Accounts Payable	5,000	
Profit and Loss (Credit)		40,000
Interest on Capital		4,000
Drawings (A, B, C)	6,000	
<b>Total</b>	<b>75,000</b>	<b>75,000</b>

**Additional Information:**

1. Interest on capital is 5% per annum.
2. A's salary is Ksh 12,000, B's salary is Ksh 8,000, and C's salary is Ksh 6,000.
3. The net profit for the year is Ksh 40,000.
4. Each partner withdrew Ksh 2,000 during the year.

**Required:**

- i. Prepare capital and current accounts as of December 31, 2024. **(12 marks)**
- ii. Prepare statement of financial position as at December 31, 2024. **(8 marks)**

**QUESTION TWO**

**[15 MARKS]**

- a) Discuss any **FIVE** financial objectives and operations between Not for Profit organizations and for-profit entities **(5 marks)**
- b) The following trial balance for XYZ Ltd. is provided for the year ending December 31, 2024:

**Trial Balance as at December 31, 2024:**

<b>Account</b>	<b>Debit (Ksh)</b>	<b>Credit (Ksh)</b>
Sales Revenue		150,000
Cost of Goods Sold	90,000	
Administrative Expenses	20,000	
Sales Expenses	10,000	
Interest Expense	5,000	
Income Tax Expense	8,000	
Share Capital (Issued 50,000 shares at Ksh10 each)		500,000
Retained Earnings (1/1/2024)		40,000
Bank	12,000	

Accounts Receivable	15,000	
Inventory	25,000	
Accounts Payable		18,000
Notes Payable (due 2026)		50,000
Dividends Payable		6,000

**Additional Information:**

1. The income tax rate is 20%.
2. The company distributed dividends of Ksh 6,000 during the year.
3. At the end of the year, the company had an inventory of Ksh 25,000 and accounts receivable of Ksh 15,000.
4. The interest expense of Ksh 5,000 is paid, and no further accruals are required for interest.

**Required:**

Prepare

- i. Statement of profit or loss for XYZ Ltd. for the year ending December 31, 2024 **(5 marks)**
- i. Statement of financial position for XYZ Ltd. as at December 31, 2024 **(5 marks)**

**QUESTION THREE [15 MARKS]**

- a) Explain the concepts of prime costs and conversion costs in manufacturing indicating how they contribute to pricing and profitability decisions? Provide examples of each type of cost. **(5 marks)**
- b) XYZ Ltd. has provided the following financial data for the year ending December 31, 2024:

**Income Statement for the Year Ending December 31, 2024:**

Account	Amount (Ksh)
Sales Revenue	500,000
Cost of Goods Sold	300,000
Gross Profit	200,000
Administrative Expenses	50,000
Sales Expenses	30,000
Operating Profit	120,000
Interest Expense	10,000
Income Tax Expense	24,000
<b>Net Profit</b>	<b>86,000</b>

**Statement of Financial Position as at December 31, 2024:**

<b>Account</b>	<b>Amount (Ksh)</b>
<b>Assets:</b>	
Current Assets	120,000
Non-Current Assets	300,000
Total Assets	420,000
<b>Liabilities:</b>	
Current Liabilities	80,000
Non-Current Liabilities	100,000
Total Liabilities	180,000
<b>Equity:</b>	
Share Capital	150,000
Retained Earnings	90,000
<b>Total Equity</b>	<b>240,000</b>

**Required:**

- i. Perform vertical analysis for the income statement and the statement of financial position **(4 marks)**
- ii. Calculate and interpret the following financial ratios for XYZ Ltd **(6 marks)**
  1. Gross Profit Margin
  2. Return on Assets (ROA)
  3. Current Ratio
  4. Debt-to-Equity Ratio

**QUESTION FOUR** **[15 MARKS]**

- a) What are the key financial adjustments required when there is a change in the partnership structure, such as the admission or retirement of a partner? **[5 marks]**
  
- a) ABC Manufacturing Ltd. produces custom furniture. The following cost data for the month of December 2024 is provided:

**Direct Costs:**

- 1) Direct Materials Used: Ksh 50,000
- 2) Direct Labor Costs: Ksh 30,000

**Indirect Costs:**

- 1) Factory Rent: Ksh 8,000
- 2) Factory Utilities: Ksh 2,000
- 3) Depreciation on Factory Equipment: Ksh 4,000
- 4) Factory Manager's Salary: Ksh 6,000

5) Indirect Labor (e.g., maintenance workers): Ksh 5,000

**Additional Information:**

1. The company produced 1,000 units of furniture during December.
2. The factory operates at 75% capacity during this period (capacity is 1,200 units per month).
3. The company has identified the following cost behavior:
  - Factory Rent is a fixed cost.
  - Factory Utilities are semi-variable costs (fixed portion of Ksh 1,000, variable portion of Ksh 1 per unit produced).
  - Depreciation on Factory Equipment is a fixed cost.
  - Direct Labor is a variable cost (Ksh 30 per unit produced).

**Required:**

- i. Classify the manufacturing costs into direct and indirect categories and identify which costs are fixed, variable, or semi-variable. **(4 marks)**
- ii. Calculate the total manufacturing costs for the month of December 2024. **(3 marks)**
- iii. Calculate the prime costs and conversion costs. **(3 marks)**

**QUESTION FIVE [15 MARKS]**

- a) Discuss how allocation and apportioning of manufacturing costs to products or departments affect decision-making, pricing strategies, and performance evaluation **(5 marks)**
- b) The following financial data for XYZ Ltd. is provided for the year ending December 31, 2024:

**Income Statement for the Year Ending December 31, 2024:**

Account	Amount (Ksh)
Net Profit	80,000
Depreciation Expense	10,000
Interest Expense	5,000
Income Tax Expense	12,000

**Statement of Financial Position as at December 31, 2024:**

Account	Amount (Ksh)	Amount (Ksh)
<b>Assets:</b>		
Accounts Receivable	15,000	12,000
Inventory	30,000	35,000
Property, Plant, and Equipment	120,000	110,000

<b>Liabilities:</b>		
Accounts Payable	20,000	18,000
Long-Term Debt	50,000	60,000
<b>Equity:</b>		
Retained Earnings	60,000	50,000

**Additional Information:**

1. Depreciation is a non-cash item.
2. There was no change in the company's share capital during the year.
3. Interest paid was Ksh 5,000, and income tax paid was Ksh 10,000.
4. Property, Plant, and Equipment increased due to the purchase of new machinery for Ksh 20,000.
5. The company made repayments of long-term debt amounting to Ksh 10,000.

**Required:**

Prepare the Statement of Cash Flows for XYZ Ltd. for the year ending December 31, 2024, using the indirect method. **(10 marks)**