

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF EDUCATION ARTS

BUST 412: FINANCIAL AND MANAGERIAL ACCOUNTING

STREAM: Y4S1 BED (ARTS)

TIME: 2 HRS

DAY: TUESDAY [11.30 A.M-1.30 P.M]

DATE: 27/01/2026

THIS QUESTION PAPER CONSISTS OF SIX (6) PAGES

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Instructions

This paper contains FOUR Questions

Answer only THREE Questions

Question ONE is Compulsory

Answer any other TWO Questions

QUESTION ONE (30 Marks)

- Highlight **TWO** features that distinguish between a public sector entity from a private sector entity **(4 Marks)**
- Explain **FOUR** objectives of financial accounting **(4 Marks)**
- Discuss **THREE** Sources of Income for Non Profit Making Organizations **(6 Marks)**
- The following Information relates to the Non-Current Assets of Daraja Limited as at 1st January 2025:

Non-Current Assets	Cost	Accumulated Depreciation
	Kshs	Kshs “000”
Freehold Property	70,000	-
Plant and Machinery	52,500	20230
Office Equipment	10,500	5,110
Motor Vehicles	31,500	18,200

Additional Information:

- The following non-current assets were acquired during the year ended 31st December 2025

Date	Non-Current Asset	Cost
		Kshs “000”
1 st January, 2025	Machinery	7,000
1 st July, 2025	Motor Vehicle	4,200

- The following Non-Current Assets were disposed of during the year ended 31st December, 2025: -

Date	Non-Current Assets	Sales Proceeds	Cost	Accum. Depreciation
				As at the date of sale
		Kshs “000”	Kshs “000”	Kshs “000”
1/01/2025	Machinery	4,830	6,300	700
1/04/2025	Office Equipment	448	560	140
31/12/2025	Motor Vehicle	2,240	3,500	350

3. Daraja Ltd. depreciates assets using the straight line method on a pro rata basis at the following rates per annum;

Non-Current Asset	Rate per Annum
Plant and Machinery	20%
Office Equipment	15%
Motor Vehicle	25%

On 1st January, 2025 the management of Darja Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

Required:

Non-Current Asset Movement Schedule for the year ended 31st December, 2025 (16 Marks)

QUESTION TWO

- a) Explain the advantages of using a flexible budget to a company (6 Marks)
- b) Wanja Limited manufactures a single product. Due to the current state of the economy, the company is only operating at an activity level of 70%. The following information relates to the company for the year ending 31st December, 2025.

	Activity Level	
	70%	80%
	Kshs	Kshs
Direct Materials	4,410,000	3,780,000

Direct Labour	1,890,000	1,620,000
Production Overheads (Fixed and Variable)	4,120,000	3,760,000
Administration Overheads (Fixed)	4,000,000	4,000,000
Selling and Distribution Overheads (Fixed & Variable)	<u>4,410,000</u>	<u>4,230,000</u>
Cost of Sales	<u>18,830,000</u>	<u>17,390,000</u>

Profits are normally loaded at 25% on cost of sales

Required:

A flexible Profit and Loss Account Statement at a Production Activity Level of 80% **(14 Marks)**

QUESTION THREE

Mr. James Kimani recently acquired a piece of land in Laikipia. A property development company has offered him Kshs 3,000,000 for the piece of land. He has to make a decision on whether to cultivate the piece of land or sell it to the property development company. If he decides to cultivate the land there is a probability of getting high, medium or low interest. The expected net income for each of the above states of harvest is as shown below;

State of Harvest	Net Income
	Kshs
High	5,000,000
Medium	1,000,000
Low	(200,000)

From past experience, there is a 10% probability that the harvest will be low, 30% probability that the harvest will be medium and a 60% probability that the harvest will be high. Mr. James Kimani can engage an agricultural expert to carry out a survey on the productivity of the land which will cost him Kshs 300,000. The agricultural expert gives the following information as to the reliabilities of such surveys (Prior probabilities).

Result of Survey	State of Harvest			Total
	High	Medium	Low	
Accurate	0.35	0.10	0.05	0.5
Inaccurate	0.25	0.10	0.15	0.5

0.60 0.20 0.20 1.00

Required

- i) Construct a decision tree for the above problem **(8 Marks)**
 ii) The EMV (Expected Monetary Value) **(10 Marks)**
 iii) The decision that you would recommend **(2 Marks)**

QUESTION FOUR

The following trial balance was extracted from the books of Hekima Traders Ltd. as at 31st December, 2025.

	Kshs “000”	Kshs “000”
Ordinary Share Capital		78,000
12% Preference Share Capital of Kshs 100 each		13,000
Share Premium		10,400
10% Debentures		13,000
Accounts Payable		19,240
Accounts Receivables	42,900	
Sales		724,000
Purchases	548,600	
Discounted Allowed	650	
Discount Received		1,690
Freehold Buildings	165,000	
Furniture and Fittings	83,200	
Accumulated Depreciation:		
Freehold Buildings		6,500
Furniture and Fittings		33,280
Inventory (1 st January, 2025)	54,600	
Returns Outwards		10,400
Rent Expenses	16,900	

Selling and Distribution Expenses	21,710	
Bad Debts Written Off	520	
Allowance for Doubtful Debts		2,340
Administrative Expenses	7,280	
Retained Earnings (1 st January, 2025)		47,060
Goodwill	20,800	
Bank Overdraft		3,250
	<u>962,100</u>	<u>962,100</u>

The following additional information is available:

1. Depreciation of non-current assets is provided on a straight line basis at the following rates: -

Asset	Rate per Annum (%)
Freehold Buildings	20%
Furniture and Fittings	12.5%

2. As at 31st December 2024, accounts receivables included Kshs 130,000 due to Johnson Weru who has now been declared bankrupt. It has been decided to write off this debt as a bad debt.
3. The allowance for doubtful debt as at 31st December 2025 is to be adjusted to 10% of accounts receivables
4. Rent Expenses prepaid as at 31st December 2025 amounted to Kshs 52,000
5. The Administrative Expenses accrued as at 31st December 2025 amounted to Kshs 95,000
6. The Company paid the interest on debentures for the year ended 31st December 2025 on 31st January, 2026.
7. As at 31st December 2025, Inventory was valued at Kshs 7,280,000
8. The Company Directors propose that the Preference Shares Dividends be paid and a Dividend of 10% of the Ordinary Share Capital be paid.
9. Corporation Tax is charged at the rate of 30% of the Profit

Required:

- a) Statement of Profit and Loss Account for the Year ended 31st December, 2025 **(10 Marks)**
- b) Statement of Financial Position as at 31st December, 2025 **(10 Marks)**