

15



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
FIRST YEAR FIRST SEMESTER
MAIN EXAMINATION
FOR THE MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 803

COURSE TITLE: FINANCIAL REPORTING AND CONTROL

DATE: 31/07/2018

TIME: 2.00- 4.00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other THREE (3) Questions in Section B

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

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SECTION A (COMPULSORY)

QUESTION ONE

a) In the absence of a fully developed theory of accounting, many researchers and committees have approached a task of reforming accounting practice by enumerating the characteristics which they believe should be exhibited by the accounting reports. State and briefly explain the characteristics which you think are desirable in the financial accounting reports.(10mks)

b) Your firm is the newly appointed external auditor to a large company that sells, maintains and leases office equipment and furniture to its customers and you have been asked to co-operate with internal audit to keep total audit costs down. The company wants the external auditors to rely on some of the work already performed by internal audit.

The internal auditors provide the following services to the company(10mks)

(i) A cyclical audit of the operation of internal controls in the company's major functions (operations, finance, customer support and information services)

(ii) A review of the structure of internal controls in each major function every four years;

(iii) A n annual review of the effectiveness of measures put in place by management to minimise the major risks facing the company.

During the current year, the company has gone through a major internal restructuring in its information services function and the internal auditors have been closely involved in the preparation of plans for restructuring, and in the related post-implementation review.

Required:

(a) Explain the extent to which your firm will seek to rely on the work of the internal auditors in each of the areas noted above.

(b) Describe the information your firm will seek from the internal auditors in order for you to determine the extent of your reliance.

(c) Describe the circumstances in which it would *not* be possible to rely on the work of the internal auditors'

1(a). The users of financial statements are those group identified as having reasonable right to be the information and whose information needs should be recognized. Explain briefly why each of the following groups would be interested in financial statement of a business enterprise. (5mks)

- a) Shareholders.
- b) The creditors.
- c) Employers.
- d) The government.
- e) Members of public.

(b). Define the following accounting concepts and for each explain their implication in the preparation of financial statements. (5mks)

- a) Consistency concept
- b) Business entity concept
- c) Materiality
- d) Realization
- e) Going concern concept

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

2(a) Discuss the various components of an accounting cycle (5 mks)

(b) Two accounting concepts or conventions could clash or there could be inconsistency between them. Give two examples of such situation and explain how the inconsistency should be resolved. (5mks)

c) H Jumps has the following assets and liabilities as on 30 November 2012:

Creditors shs 39,500; Equipment shs 115,000; Motor vehicle shs 62,900; Stock shs 61,500;
Debtors shs 57,700; Cash at bank shs 72,800 and Cash in hand shs 400.

Compute the balance on the capital account as at 30 November 2012.

During the first week of December 2012, Jump:

- a. Bought extra equipment on credit for shs 13,800.
- b. Bought extra stock by cheque shs 5,700.
- c. Paid creditors by cheque shs 7,900.
- d. Received from debtors shs 8,400 by cheque and shs 600 by cash.

- e. Put in extra shs 2,500 cash as capital.

You are to draw up a statement of financial position as on 7 December 2012 after the above transactions have been completed. (10mks)

QUESTION THREE

PREPARATION OF PUBLISHED FINANCIAL STATEMENTS

The accountant of Wislon Co. has prepared the following list of account balances as at 31 December 2015

	Sh '000'
50c ordinary shares (fully paid)	350
7% Sh.1 preferred shares (full paid)	100
10% debentures (secured)	200
Retained earnings 1.1 x 7	242
General reserve 1.1 x 7	171
Land and buildings 1.1 x 7 (cost)	430
Plant and machinery 1.1 x 7 (cost)	830
Aggregate depreciation	
Building 1.1 x 7	20
Plant and machinery 1.1 x 7	222
Inventory 1.1 x 7	190
Sales	2,695
Purchases	2,152
Preferred dividend	7
Ordinary dividend (interim)	8
Debenture interest	10

Wages and salaries	254
Light and heat	31
Sundry expenses	113
Suspense account	135
Trade accounts receivable	179
Trade accounts payable	195
cash	126

Notes

- (a) Sundry expenses include Shs. 9 million paid in respect of insurance for the year ending 1 September 2016. Light and heat does not include an invoice of Shs. 3,000 for electricity for the three months ending 2 January 2016, which was paid in February 2016. Light and heat also includes Shs. 20 million relating to salesmen's commission.
- (b) The suspense account is in respect of the following items.

Shs. million

Proceeds from the issue of 100,000 ordinary shares	120
- Proceeds from the sale of plant	<u>300</u>
	420
Less consideration for the acquisition of Mary & Co.	<u>285</u>
	<u>135</u>

- (c) The net assets of Mary & Co. were purchased on 3 March 2015. Assets were valued as follows.

	Shs. Million
Investments	231
Inventory	<u>34</u>
	<u>265</u>

All the inventory acquired was sold during 2015. The investments were still held by Wislon at 31.12.2015. Wislon amortises goodwill over 5 years, with a full charge made in the year of acquisition.

- (d) The property was acquired some years ago. The buildings element of the cost was estimated at Shs.100, 000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 December 2015 the property is to be revalued at Shs.800 million.
- (e) The plant which was sold had cost Shs350, 000 and has a net book value of Sh. 274,000 on 1.1 x 7. Shs.36, 000 depreciation is to be charged on plant and machinery for 2015.
- (f) The debentures have been in issue for some years. The 50p ordinary shares all rank for dividends at the end of the year.
- (g) The Management to provide for:
- i) Debenture interest due
 - ii) A final dividend of 2c per share
 - iii) A transfer of general reserve of Shs. 16,000
 - iv) Audit fees of Kshs.4,000.
- (h) Inventory as at 31 December 2016 was valued at Shs.220,000 (cost).
- (i) Taxation is to be provided as at Shs.30,000. Assume tax rate of 30%.
- Required

Prepare the financial statements of Wislon Co. as at 31 December 2016 to produce notes to the statements. **(Total: 20 marks)**

QUESTION FOUR

4) The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

- a) The business entity principle.
- b) The historical cost principle.
- c) The monetary principle.
- d) The matching principle.
- e) The conservatism principle.

Required:

For each of the principles listed above:

- a) Explain its meaning
- b) Justify its use.
- c) Explain any weaknesses associated with its use. (20marks)

QUESTION FIVE

a) Mr Chai has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30 April 2016, the end of his most recent financial year.

	Shs
Capital	83,887
Sales	259,870
Trade creditors	19,840
Returns out	13,407
Provision for bad debts	512
Discounts allowed	2,306
Discounts received	1,750
Purchases	135,680
Returns inwards	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440
Stock as at 1 May 2015	15,654
Trade debtors	24,500
Fixtures and fittings – at cost	120,740

Provision for depreciation on fixtures and fittings – as at 30 April 2016	63,020
Depreciation	12,074

The following additional information as at 30 April 2016 is available:

- (a) Stock at the close of business was valued at shs 17,750.
- (b) Insurances have been prepaid by shs 1,120.
- (c) Heating and lighting is accrued by shs 1,360.
- (d) Rates have been prepaid by shs 5,435.
- (e) The provision for bad debts is to be adjusted so that it is 3% of trade debtors.

Comprehensive income statement and statement of financial position as at that date using the vertical format (20mks)