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(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS
2015/2016 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 803

COURSE TITLE: FINANCIAL REPORTING AND CONTROL

13/05/2016

DATE: **TIME:**

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other WO (2) Questions in Section B

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination cheating

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QUESTION ONE

Q1a) The Statement of financial position of Johnson's shop at 1 October 19X7 was as follows:

	Ksh	Ksh	Ksh	Ksh
Non current assets				
Shop premises	45,000		Capital as at 1 Oct	51,000
Shop fittings	12,000			
Delivery van	4,000	61,000		
Current assets			Current liabilities	
Stock in trade	14,000		Trade creditors	12,000
Cash in hand	2,000	<u>16,000</u>	Bank overdraft	14,000
		<u>77,000</u>		<u>26,000</u>
				<u>77,000</u>

The following is a summary of the transactions which took place during the year to 30 September 19X8:

1. Sales were made, all for cash, of Ksh 145,000. The stock in trade sold cost Ksh 83,000.
2. Stock in trade bought, all on credit for Ksh 78,000.
3. Cash of Ksh 113,000 was taken from the till (cash register) and paid into the bank.
4. The trade creditors were paid Ksh 73,000 by cheque.
5. Johnson borrowed Ksh 30,000 from Black, which was paid into the bank. The loan is for 5 years.
6. Wages of Kshs 17,000 were paid in cash.
7. Rates of Ksh 2,900 were paid by cheque.
8. Sundry expenses of Ksh 6,000 were paid in cash.
9. Electricity bills of Ksh. 1,600 were paid by cheque.
10. The owners of the business withdrew Ksh 9,000 in cash.

At 30 September 19X8 you discover the following:

1. Interest Ksh 2,500 due to Black for the year was unpaid.
2. Shop fittings are to be depreciated at 10% per annum on the total at the year-end; the delivery van is to be depreciated at 20% per annum of the total at the year-end.
3. The rates payment during the year included Ksh 1,000 in respect of the period 1/10/19X8 to 31/3/19X9.
4. The electricity bill for the quarter to 30/09/19X8 for Ksh 500 was unpaid.

Prepare a statement of financial position as at 30 September 19X8 and income statement for the year to that date. (20 mks)

b) Discuss the following and state how they affect the adjustments of the final books of accounts

Bad debts and provision of bad debts

Depreciation and provision for depreciation

Prepayments and accruals (3 mks)

c) What are the causes of depreciation? (2 mks)

d) What are the two major methods of charging depreciation? (3 mks)

e) What are the main reasons for preparing the statement of comprehensive income? (2mks)

QUESTION TWO

Q 2) The following trial balance has been extracted from the ledger of Herbert Howell, a sole trader, as at 31 May 20X9, the end of his most recent financial year.

Herbert Howell

Trial Balance As At 31 May 20x9

	Dr	Cr
	shs	shs
Property at cost	90,000	
Equipment at cost	57,500	
Provision for depreciation (as at 1 June 20X8)		
Property		12,500
Equipment		32,500
Stock as at 1 June 20X8	27,400	
Purchases	259,600	
Sales		405,000
Discounts allowed	3,370	
Discounts received		4,420
Wages and salaries	52,360	
Bad debts	1,720	

Loan interest	1,560	
Carriage out	5,310	
Other operating expenses	38,800	
Trade debtors	46,200	
Trade creditors		33,600
Provision for bad debts		280
Cash on hand	151	
Bank overdraft		14,500
Drawings	28,930	
13% loan		12,000
Capital, as at 1 June 20X8	<u> </u>	<u>98,101</u>
	<u>612,901</u>	<u>612,901</u>

The following additional information as at 31 May 20X9 is available:

- (a) Stock as at the close of business was valued at shs 25,900.
- (b) Depreciation for the year ended 31 May 20X9 has yet to be provided as follows:
 - Property - 10% using the straight-line method
 - Equipment - 15% using the straight-line method
- (c) Wages and salaries are accrued by shs140.
- (d) Other operating expenses include certain expenses prepaid by shs 500. Other expenses included under this heading are accrued by shs 200.
- (e) The provision for bad debts is to be adjusted so that it is 0.5% of trade debtors as at 31 May 20X9.
- (f) Purchases include goods valued at shs 1,040, which were withdrawn by Mr Howell for his own personal use.

Required:

Prepare Mr. Howell's income statement for the year ended 31 May 20X9 and statement of financial position as at 31 May 20X9.(20 marks)

QUESTION THREE

(a) 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. (3 mks)

b) Discuss the various components of an accounting cycle (3mks)

c) Munyah Limited is an expanding enterprise and the following accounts relate to the operations for the years 2006 and 2007 :

Profit statement for the year ended 30th June

	2006	2007
Sales	3,000,000	4,800,000
Less cost of goods sold	1,650,000	2,700,000
Gross Profit	1,350,000	2,100,000
Less trading expenses	675,000	825,000
Trading profit	675,000	1,275,000
Less debenture interest	37,500	37,500
Net profit before taxation	637,500	1,237,500
Less corporation tax	240,000	480,000
Net profit after taxation	397,500	757,500
Less ordinary share dividend	187,500	262,500
Undistributed profits for the year	210,000	495,000

Balance sheet as at 30th June

	2006	2007
Fixed assets at cost	1,500,000	2,100,000
Less depreciation	<u>300,000</u> 1,200,000	<u>375,000</u> 1,725,000
Stock	600,000	825,000
Debtors	375,000	525,000
Cash	120,000 1,095,000	----- 1,350,000
Less current liabilities		
Creditors	217,000	300,000
Taxation	240,000	480,000
Proposed dividends	187,500	262,500

Bank overdraft	-----	97,500
	(645,000)	(1,140,000)
	<u>1,650,000</u>	<u>1,935,0000</u>

Financed by

Ordinary share capital	750,000	750,000
Undistributed profits	525,000	1,020,000
10 % debentures	375,000	165,000
	<u>1,650,000</u>	<u>1,935,000</u>

i) Compute six ratios for both 1999 and 2000, which you feel, would be of particular value in assessing the profitability, liquidity and turnover ratios of Munyah Ltd (10 mks)

ii) Comment on the current position of the business with the aid of accounting ratios computed on as above and any other information you consider to be relevant (10 mks)

QUESTION FOUR

Premier Kenya Ltd. was formed on 1 October 2006 in order to export tea and coffee to European markets. The Directors are unsure as to their responsibilities and the nature of their relationship with the external auditors. The audit partner has asked you to visit the client and explain to the directors, the fundamental aspects of the accountability of the directors and their relationship with the auditor.

Required:

Explain to the directors of Premier Kenya Ltd.

- a. The need for an audit (2mks)
 - b. Procedures for the appointment of an auditor of a public company under the Companies Act. (5mks)
 - c. Directors responsibilities in relation to the accounting function of the Company. (5mks)
 - d. Auditors' statutory responsibilities in relation to the audit of the company's financial statements. (5mks)
- ii) List down internal control procedures for raw material purchasing system of a large manufacturing firm (3 mks)

QUESTION FIVE

Q 5a). 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)

- i) Shareholders.
- ii) The creditors.
- iii) Employees.
- iv) The government.
- v) Members of public.

(b). Define the following accounting concepts and for each explain their implication in the preparation of financial statements. (4mks)

- i) Business entity concept
- ii) Materiality
- iii) Realization
- iv) Going concern concept

c) A three-column cashbook is to be written up from the following details, balanced off, and the relevant accounts in the general ledger shown. (11mks)

19x8

Mar 1 Balances brought forward: Cash Sh .230; Bank Sh .4,756.

“ 2 The following paid their accounts by cheque, in each case deducting 5 percent

3 Discounts: R Burton Sh 140; E Taylor Sh. 220; R Harris Sh 800.

“ 4 Paid rent by cheque Sh.120.

“ 6 J Cotton lent us Sh 1,000 paying by cheque.

“ 8 We paid the following accounts by cheque in each case deducting a 2 1/2 per cent cash discount: N Black Sh 360; P Towers Sh 480; C Rowse Sh 300.

“ 10 Paid motor expenses in cash Sh 44.

“ 12 H Hankins pays his account of Sh. 77, by cheque Sh 74, deducting Sh 3 cash discount.

“ 15 Paid wages in cash Sh. 160.

“ 18 The following paid their accounts by cheque, in each case deducting 5 per cent cash discount: C Winston Sh 260; R Wilson & Son Sh 340; H Winter Sh 460.

“ 21 Cash withdrawn from the bank Sh 350 for business use.

“ 24 Cash Drawings Sh 120.

“ 25 Paid T Briers his account of Sh 140, by cash Sh 133, having deducted Sh 7 cash discount.

“ 29 Bought fixtures paying by cheque Sh 650.

“ 31 Received commission by cheque Sh 88