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(Knowledge for Development)  
**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 803**

**COURSE TITLE: FINANCIAL REPORTING AND CONTROL**

**DATE: 13/09/2017 TIME: 3.00 - 5.00 PM**

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**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**

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

c) 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 19X7, 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 19x6	15,654
Trade debtors	24,500
Fixtures and fittings – at cost	120,740

Provision for depreciation on fixtures and fittings – as at 30 April 19X7	63,020
Depreciation	12,074

The following additional information as at 30 April 19X7 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)

### 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 2002:  
 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 2002.

During the first week of December 2002, 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 2002 after the above transactions have been completed. (10mks)

### QUESTION THREE

3(a) List and describe SIX financial statement assertions, other than completeness, used by auditors in the audit of financial statements. (10 marks)

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 (10mks)

### 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) 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) An 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'