



(Knowledge for Development)

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**FIRST YEAR FIRST SEMESTER**

**MAIN EXAMS**

**FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION**

**COURSE CODE: MBA 803**

**COURSE TITLE: FINANCIAL REPORTING AND CONTROL**

**DATE: 18<sup>TH</sup> MAY, 2021**

**TIME: 2.00PM-5.00PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One and any other THREE (3) Questions

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

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**QUESTION ONE (40 MARKS)**

- a) Distinguish between Journalizing and posting. State the types of Journals and their uses\_\_\_\_\_ (5 marks)
- b) Describe the procedure of bank reconciliation (5 marks)
- c) State and explain users of accounting information and the kind of information that they are interested in \_\_\_\_\_ (5marks)
- d) Highlight any FIVE fundamental accounting concepts (5 ½ marks)
- e) Highlight the seven rules of making entries in ledger Accounts (3 ½ marks)
- f) What are the benefits of cashflow statements (6marks)
- g) Distinguish between International Accounting Standards(IASs) and International Financial Reporting Standards(IFRSs) (5 marks)
- h) Distinguish between operating activities and investing activities (5mrks)

## QUESTION TWO

Karanja commenced his business of making chairs on 1<sup>st</sup> April 2016. Due to his inadequate accounting knowledge he did not maintain proper books of account. He provides the following information

1. On commencement of business on 1<sup>st</sup> April 2016 he deposited Sh 2,200,000 into a business bank account. On the same day he brought into the firm his pickup and estimated that it was worth Sh.1660, 000 then and that from 1<sup>st</sup> April 2016 it will have useful life of four years.
2. To increase his working capital he borrowed Sh. 800,000 at 15% interest per annum on 1<sup>st</sup> August 2016 from his sister but no interest has been paid.
3. On 1<sup>st</sup> April 2016 Ben was employed as a clerk at a salary of sh.360, 000 per annum.
4. He had drawn Sh. 28,000 per week from the business account for private use during the year (52 weeks).
5. He purchased timber worth Sh. 2,960,000 out of which Sh. 358,000 worth of stock was retained in the workshop on 31 March 2017. He also spent Sh.1960,000 on the purchase of some equipment at the commencement of the business which he estimates will last him five years,
6. Electricity bills received up to 31 January 2017 were Sh.280, 000. Bills for the remaining two months were estimated to be Sh.88, 000. Motor vehicle expenses were Sh. 282,000 while general expenses amounted to as.470, 000 for the year. Insurance premium for the year to 30 June 2016 was Sh.320,000. All these expenses have been paid by cheque.
7. Rates for the year to June 2016 were Sh.36,000 paid by cheque
8. Sally sent out invoices to customers for Sh.9, 178,000 but only Sh.7, 080,000 had been received by 31 March 2017. Debts totaling to Sh. 47,000 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh 966,000 in cash for work done of which Sh.760, 000 was banked. Karanja used Sh.95, 000 of the difference to pay for his family's food stuff, bought Kenya Charity Sweepstake tickets worth Sh.40,000 and Ben used the rest on general expenses except Sh.50,100 which was left over in the drawer in the office on 31 March 2017.
9. You agree with Karanja that he will pay you sh 75,000 for accountancy fee.

**Required: Prepare**

- a) Profit and loss account for the year ended 31 March 2017 (12 Marks)
  - b) Balance sheet as at 31 March 2017 (8Marks)
- (Total 20 Marks)**



### QUESTION THREE

The following trial balance was extracted from the Books of Chunga Mali Ltd as at 31.12. 2019

	Sh.'000'	Sh.'000'
Authorized issued and paid up		
Capital (ordinary shares of sh.20 each)		30,000
Share premium account		2,100
Profit and loss account 1 January 2019		6,430
Motor vehicles (cost sh. 6,000,000)	3,600	
Freehold properties at cost	18,000	
Purchases	80,276	
Sales		121,492
Goodwill	3,500	
Provision for bad debts; Jan 2019		300
Bad debts	400	
Bank loan. at 15% per annum ;		6,000
Loan interest accrued at 1 Jan 2019		900
Trade debtors and creditors	18,700	7,290
Rent receivable		1,000
Motor vehicles expenses	930	
General expenses	5,266	
Bank balances	6,188	
Salaries and wages	21,872	
Rates and insurance	794	
Stock on January 2019	<u>15,986</u>	
	<b>175,512</b>	<b>175,512</b>

The following information is available;

1. Stock in trade on 31<sup>st</sup> December 2019 was sh. 16,850,000
2. The provision of bad debts is to be increased to sh.450,000
3. Salaries and wage outstanding on 31 December 2019 amounted to sh. 120,000
4. Rates and insurance paid in advance sh.180,000
5. Rents receivable of sh. 1,000,000 includes sh.200,000 in respect of the period 1 January 2020 to 30 April 2020
6. It is the company's policy to depreciate motor vehicles at the rate of 20% per annum at cost.
7. Interest on bank loan has not been paid
8. Corporation tax on profit for the year is estimated at sh.3,575,000
9. A sum of sh. 2,000,000 is to be transferred to revenue reserve account
10. Ordinary dividend of sh. 2 per share is proposed

#### Required:

Income statement for the year ended 31 .12 2019 (10marks)

Statement of financial position as at 31 .12. 2019 (10marks)

(Total 20Marks)

**QUESTION FOUR**

- a) Briefly explain why it is important to prepare a bank reconciliation statement (4 mks)  
b) You have been recently been employed in a medium size company and deployed in an account department. Your head of section has given you the following extract from the cash book of may 2017

	Sh		Sh
Receipts during the month	2938000	Balance b/f	1522000
Balance c/f	1108000	Payments	2524000
	<hr/>		<hr/>
	4046000		4046000

The head of section inform you that all receipts are banked intact and all payments are made by cheque.

On investigation you discover the following

- 1) Bank charges and commission amount to 272000 entered on the bank reconciliation statement had not been entered in the cash book.
- 2) Chaques drawn amounting to sh 534000 had not been presented to the bank for payment
- 3) Chaques totaling to sh 1524000 had been entered in the cash book and paid into the bank and had not been credited until June 2017
- 4) A cheque totaling to sh 44000 had been entered as a receipt in the cash book instead of a payment.
- 5) A cheque of 50000 had been debited by the bank by mistake
- 6) A cheque received for sh 1600 had been returned unpaid. no adjustments had been made in the cash book
- 7) All dividends receivables are credited direct to the bank. During the month of may 2017 dividends totaling to sh 12400 were credited by the bank and no entries were made in the cash book
- 8) A cheque drawn for sh 12000 had been incorrectly entered in the cash book as 132000
- 9) The b/f should have been sh 1432000
- 10) The bank statement as at 30<sup>th</sup> may 2017 showed an overdraft of sh 2324000

**Required:** Adjusted cashbook and bank reconciliation statement as at 30<sup>th</sup> may 2017

### QUESTION FIVE

- a) Briefly explain the reasons why net profit from ordinary activities differs from cash flow generated from operations. (4mrks)
- b) Home marketing sells a single product ~wonder home~ exclusively through personal marketing. Shown below are comparative income statement and balance sheet for the last two years,

#### Income statement for the year ended 31<sup>st</sup> December

	2016	2017
	<b>000</b>	<b>000</b>
Sales	500000	350000
Less: cost of sales	200000	140000
Gross profit on sales	300000	21000
Less: operating expenses	260000	243000
Loss on sale of marketable securities	-----	1000
Net income (loss)	40000	(34000)

#### Home marketing ltd Balance sheet as at 31<sup>st</sup> December

	2018	2019
Assets	<b>Sh 000</b>	<b>Sh 000</b>
Cash and cash equivalent	1000	60000
Marketable securities	20000	5000
Account receivable	40000	23000
Inventory stock	120000	122000
Plant and equipment	300000	285000
	<b>490000</b>	<b>495000</b>
Liability and shareholders' equity		
Account payables	50000	73000
Accrued expenses payable	17000	14000
Note payable	245000	253000
Share capital per sh 10	10000	11000



Share premium	20000	25000
Retained earnings	58000	20000
	<b>490000</b>	<b>495000</b>

The following information regarding the company's operations in 2019 is available from the company's accounting records

- 1) Early in the year the company declared and paid a total of sh 4,000,000 as dividends
- 2) The company purchased plant asset for sh 20,000,000, paying sh 2,000,000 in cash and issuing a note payable for sh 18,000,000

**Required:**

Cash flow statement in accordance with international accounting standards (16mrks)