



**MURANG'A UNIVERSITY COLLEGE**

*(A Constituent College of Jomo Kenyatta University of Agriculture and Technology)*

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**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF COMMERCE**

**MAIN CAMPUS**

**UNIVERSITY EXAMINATIONS**

**ORDINARY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**YEAR ONE SEMESTER ONE EXAMINATIONS**

**DIPLOMA IN BUSINESS MANAGEMENT (DBM)**

**COURSE CODE: DBF 1211 COURSE TITLE: FINANCIAL REPORTING & ANALYSIS**

**DATE: 19<sup>TH</sup> AUGUST 2015**

**TIME: 2 HOURS**

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**INSTRUCTIONS TO THE CANDIDATES**

**THIS PAPER CONSIST OF FOUR QUESTIONS**

Question one (1) is Compulsory

Answer Any Other Two (2) Questions

MRUC observes ZERO tolerance to examination irregularities

This paper consists of 4 printed pages. Please turn over. ⇨

## QUESTION ONE

- a) Discuss five objectives of preparing financial statements citing example in each. (10 marks)
- b) From the following information of M/s Nand Lal & Bros. for the year ending 31st March, 2012 prepare Trading A/c and Profit and Loss A/c for the year ended 31st March, 2012.
- Stock 1.4.2005 5800
  - Sales 72000
  - Purchases - cash 42000
  - Return Inward 2000
  - Purchases - credit 18000
  - Interest on Investment 1500
  - Freight Inward 1800
  - Discount Received 1200
  - Wages 4500
  - Closing stock 7200
  - Carriage on Sales 800
  - Telephone Charges 1600
  - Electricity Expenses 1200
  - Office Rent Paid 6000
  - Salaries 8000
  - Depreciation 1400 (10marks)
- c) The following information provide items of the pertinent data that should be provided in a balance sheet.
- Bank overdraft xxxx
  - Cash in hand xxxx
  - Outstanding Expenses xxxx
  - Cash at bank xxxx
  - Prepaid expenses xxxx
  - Investments (short term) xxxx
  - Bill payables xxxx
  - Bill Receivables xxxx
  - Sundry creditors xxxx
  - Sundry Debtors xxxx
  - Loans xxxx
  - Closing stock xxxx
  - Capital xxxx
  - Investments xxxx
  - Add Net Profit xxxx
  - Furniture xxxx
  - Less drawings xxxx
  - Plant & Machinery xxxx
  - Land & Building xxxx
  - Goodwill xxxx
- Required;**  
Prepare a balance sheet that shows the arrangement of these assets and liability in both liquidity and permanency order. (10 marks)

**TOTAL : 30 MARKS**

## QUESTION TWO

- a) Distinguish between wasting assets and fictitious assets. (2 marks)
- b) Accounting statements has been developed using a well guided concepts for good presentation and accountability by accountants in any organization. Explain five accounting concepts as provided by International Accounting Standards Board. (IASB) (10 marks)
- c) Given that prudence is the main consideration, discuss under what circumstances, if any, revenue might be recognized at the following stages of a sale.
- (i) Goods have been acquired by the business, which it confidently expects to resell very quickly.
  - (ii) A customer places a firm order for goods.
  - (iii) Goods are delivered to the customer.
  - (iv) The customer is invoiced for goods.
  - (v) The customer pays for the goods.
  - (vi) The customer's cheque in payment for the goods has been cleared by the bank. (8 marks)

**TOTAL : 20 MARKS**

## QUESTION THREE

James Mbuvi started a taxi business in Nairobi March 1990 under the firm name Mbuvi Taxis. The firm had two vehicles KA and KB, which had been purchased for Sh.560, 000, and Sh.720, 000 respectively earlier in the year.

In February 1992 vehicle KB was involved in an accident and was written off. The insurance company paid the firm Sh.160, 000 for the vehicle. In the same year the firm purchased two vehicles, KC and KD for Sh.800, 000 each.

In November 1993 vehicle KC was sold for Sh.716, 000. In January 1994 vehicle KE was purchased for Sh.840,000. In March 1994 another vehicle KF was purchased for Sh.960, 000.

The firm's policy is to depreciate vehicles at the rate of 25 per cent on cost on vehicles on hand at the end of the year irrespective of the date of purchase. Depreciation is not provided for vehicle disposed of during the year. The firm's year ends on 31 December.

### **Required:**

- a) Calculate the amount of depreciation charged in the profit and loss account for each of the five years. (7 marks)
- b) Prepare the motor vehicle account (at cost). (8 marks)
- c) Calculate the profit and loss on disposal of each of the vehicles disposed of by the company. (5 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- a) Briefly explain the nature and purpose of accounting for depreciation. (5 marks)
- b) The chief accountant of Jitegemea Ltd has encountered difficulties while accounting for fixed assets and the related depreciation in the company's draft accounts for the year ended 30 April 2000. He has decided to seek your professional advice and presented the following balances of fixed assets as at 1 May 1999:

	Acquisition Cost Sh.	Accumulated Depreciation Sh.	Depreciation Rates %	The
Furniture	900,000	300,000	12.5	
Trucks	3,525,000	1,470,000	25	
Plant and machinery	7,387,500	4,462,500	10	
Land	2,775,000	-	Nil	
Buildings	2,925,000	292,500	2.5	

following additional information was also available:

1. It is the company's policy to write off cost of the assets using above percentages on cost.
2. Depreciation is fully charged in the year of acquisition and none in the year of disposal.
3. A three year old machine acquired for sh.187,500 was sold for sh.15,750.
4. It has been decided to adjust and charge depreciation on buildings at 4%.
5. A used delivery truck purchased three years ago for sh.248,250 was traded in during the year at a value of sh.157,500 in part exchange of the new delivery truck costing sh.450,000.
6. Land, buildings and machinery were acquired for sh.1,350,000 from a company that went out of business. At the time of acquisition sh.90,000 was paid to have the assets revalued by a professionally qualified valuer. The revaluation indicated the following market values.

	Sh.
Land	900,000
Buildings	600,000
Machinery	300,000

#### Required:

A schedule of movement of fixed assets as requested by the Chief Accountant for inclusion in the company's accounts for the year ended 30 April 2000.

(15 marks)

**(Total: 20 marks)**