



MURANG'A UNIVERSITY COLLEGE

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

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

ORDINARY

2015/2016 ACADEMIC YEAR

YEAR TWO SEMESTER ONE EXAMINATIONS

DIPLOMA IN BUSINESS MANAGEMENT (DBM)

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

DATE: 22ND APRIL 2016

TIME: 2 HOURS

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 →.

QUESTION ONE

- a) The following information was extracted from the books of Wilberforce a sole trader at Wananchi market in huruma.

Particulars	BALANCES	Particulars	BALANCES
Cash in hand	500	Capital	70000
Motor car	25000	Discount Received	2000
Drawings	48000	Sales	230000
Legal charges	1500	Creditors	46000
Plant & Machinery	60000	Interest on investment	5200
Investments	40000	Purchases Return	3800
Opening stock	35000	Bills payable	34000
Sales Returns	2500		
Salaries	12000		
Discount allowed	600		
Carriage Inward	1800		
Wages	21000		
Postage	400		
Debtors	60000		
Interest	1500		
Insurance Premium	1200		
Purchases	80000		
	<u>391,000</u>		<u>391,000</u>

Required:

With particular emphasis on presentation, **prepare** a trading and profit and loss account for the year 2015, and a balance sheet at 31 December 2015. (20marks)

- b) **Discuss** the objectives of financial statements with regards to the preparations and presentation of financial reports for internal or external use. (6marks)
- c) Briefly **explain** the following terms as used in financial reporting:
- i) Liquidity order
 - ii) Permanency order

(4marks)

TOTAL (30MARKS)

QUESTION TWO

- a) **Discuss four** reasons why Accountants should observe International Accounting Standards as they prepare any financial statement? (4marks)
- b) Explain any **five** accounting concepts that are useful for any business venture which maintains good business records. (5marks)
- c) Discuss any **five** functions of **ICPAK** as outlined by the Act; (5marks)
- d) Accounting information is useful when it is free from **material error and biasness** and can be depended upon by users. Discuss any **Four** areas that this quality address

QUESTION THREE

James Mwanzia started a taxi business in Nairobi March 2010 under the firm name Mwanzia's 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 2012 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 2013 vehicle KC was sold for Sh.716, 000. In January 2014 vehicle KE was purchased for Shs.840, 000. In March 2014 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: 20marks)

QUESTION FOUR

- a) Analysis of financial statements is done by use of accounting ratios. Discuss five categories of ratios. (5marks)

Beta Ltd is reviewing the financial statements of two companies, Zeta Ltd and Omega Ltd. The companies trade as wholesalers, selling electrical goods to retailers on credit. Their most recent financial statements appear below.

PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

Zeta Limited

Omega Limited

	£'000	£'000	£'000	£'000
Sales		4,000		6,000
Cost of sales				
Opening stock	200		800	
Purchases	<u>3,200</u>		<u>4,800</u>	
	3,400		5,600	
Less: closing stock	<u>400</u>		<u>800</u>	
Gross profit		<u>3,000</u>		<u>4,800</u>
		1,000		1,200
Expenses				
Distribution costs	200		150	
Administrative expenses	290		250	
Interest paid	<u>10</u>		<u>400</u>	
		<u>500</u>		<u>800</u>
Profit before tax		500		400
Taxation		<u>120</u>		<u>90</u>
Net profit for the period		<u>380</u>		<u>310</u>

Balance Sheets As At 31 March 2014

	<i>Zeta Limited</i>		<i>Omega Limited</i>	
	£'000	£'000	£'000	£'000
Fixed assets				
Tangible assets				
Warehouse and office buildings	1,200		5,000	
	<u>600</u>		<u>1,000</u>	
Equipment and vehicles		1,800		6,000
Current assets	400		800	
Stock	800		900	
Debtor – trade	150		80	
- sundry	<u>-</u>		<u>100</u>	
Cash at bank	<u>1,350</u>		<u>1,180</u>	
Current liabilities	(800)		(800)	
Creditors – trade	(80)		(100)	
- sundry	(200)		-	
Overdraft	<u>(120)</u>		<u>(90)</u>	
Taxation		<u>150</u>		<u>890</u>
		1,950		6,890
		<u>-</u>		<u>(4,000)</u>
Long-term loan (interest 10% pa)		<u>1,950</u>		<u>2,890</u>
		1,000		1,600
		-		500
Share capital		<u>950</u>		<u>790</u>
Revaluation reserve		<u>1,950</u>		<u>2,890</u>
Profit and loss account				

Required:

Calculate for each company various ratios which will assist in measuring the three aspects of profitability, liquidity and management of the elements of working capital. (15 marks)

(TOTAL: 20marks)

THE END.....