KIBABII UNIVERSITY COLLEGE
(A Constituent College of MasindeMuliro University of Science Technology)
P.O. Box 1699-50200 Bungoma, Kenya
Tel. 020-2028660/0708-085934/0734-831729
E-mail: enquiries@kibabiiuniversity.ac.ke

UNIVERSITY EXAMINATIONS

2012/ 2013 ACADEMIC YEAR

FOR THE DIPLOMA OF
BUSINESS MANAGEMENT

COURSE CODE: DBF 100

COURSE TITLE: FINANCIAL REPORTING AND ANALYSIS

DATE: 22nd August 2013   **TIME:** 9.00am – 12 noon

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Instructions to Candidates

- Answer Question One (Compulsory) and any other Two Questions.
- Be neat and orderly

QUESTION ONE (COMPULSORY)

a) Accounting standards are working rules and guidelines formulated by Accounting Regulatory bodies to guide in preparation of financial statements. Discuss five benefits of the standards (10 marks)

b) The users of accounting information (financial statements) have an interest in the existence of the firm. Therefore the information contained in the statements will affect their decision making process. Discuss the following users of accounting information
   i. Owners
   ii. Managers
   iii. Lenders
   iv. Government and its agencies
   v. Employees

c) Suppose you are offered an investment that will pay you sh. 200,000 in one year, shs 400,000 the next year, sh. 600,000 the next year and sh. 800,000 at the end of the fourth year. In this investment you can earn 12% on very similar investments. What is the most you should pay for this investment? (10 marks).

QUESTION TWO

You are the Company Secretary of ABC Company Limited and the summarized draft accounts prepared for the year to 31st March 2010 contained the following information

ABC Company Limited

Income Statement for the year ending 31 March 2010

Items	2010	2009
	Shs. '000'	Shs '000'
Revenue	12,296	10,260
Profit on sale investment	602	-
Total Profit	**12,898**	**10,260**
Cost of goods sold	7,376	6,182
Depreciation	556	440
Distribution and selling expenses	3,307	2,761
Director emoluments	400	375
Finance Charge	72	-
Profit before tax	**1,187**	**520**

	350	200
Taxation		
Profit after tax	**837**	**320**
Dividends paid	180	180
Retained profits for the year	**657**	**140**

ABC Company Limited
Balance sheet as at 31 March 2010

	2010	2009
	Shs "000"	Shs "000"
Fixed assets		
Plant and Machinery less	2,647	1,756
Depreciation		
Goodwill at cost	340	-
Investment at cost	-	400
Total fixed assets	2,987	2,156
Current Assets		
Inventories	2,490	1,951
Debtors	2,280	1,701
Cash at bank	-	26
Total current assets	4,770	3,678
Total Assets	7,757	5,834
Equity and liabilities		
Called up share capital (sh. 1 shares)	1,800	1,800
Retained earnings	2,226	1,569
Total equity and liabilities	4,026	3,369

Non Current Liabilities

Provision for defend taxation	1,452	1,272
	1,452	1,272

Current liabilities

Bank overdraft	564	-
Trade payables	1,545	983
Corporation tax	170	210
Total current Liabilities	<u>1,279</u>	<u>1,193</u>
Total equity and Liabilities	7757	5834

In April 2009 ABC limited added to its existing operations by acquiring the business assets of XYZ ltd, a local competitor trading with a turnover of shs. 2,000, 000 per machinery wirth sh. 700000 and inventories woths

Required

Prepare a report for the Board of Directors at ABC on the company's on the company's financial progress during the year to 31 March 2010 and on its financial position at that date based on the information provided above. You should support your analysis with relevant accounting ratios covering: profit margins, return on investment, asset utilization and short-term liquidity. (20 marks)

QUESTION THREE

The following issues have arisen in relation to the accounts of Patel's ltd for the year ending 31 December 2009.

(i)   Patel received from a customer during December 2009, an advance payment of sh. Million for the supply of services over the next three years. The directors plan to include this amount as sales revenue for 2009.

(ii)   An action has been brought against Patel for negligence during 2009. Patel's lawyers have been instructed to vigorously defend the action, but tell the directors that they should expect to lose the case, which would cost up to Sh 1.5 million. A court decision is not expected for at least a year.

(iii)   Pate's chief Accountant believes that the company should always take the most prudent approach when valuing assets for inclusion in the accounts.

(iv)   A property was purchased at the beginning of 2009 for shs. 10 million. On 31 December 2009 the property is expected to be worth shs. 16 million, and the

finance director of Patel is not sure which figure should be used when preparing the account.

(v) Patel owns a machine with a carrying value of sh. 50, 000 at 31 December 2009 which is now obsolete. The directors have discovered that the machine could be sold to a south American Company, in January 2010, for sh. 50,000. It would cost Patel sh.62,000 to transport the machine to South America. The directors are unsure whether the machine should be treated as an asset in the accounts .

Required:

Advice the director of Patel how to deal with the above five issues in the accounts for the year ended 31 December 2009. You should base your advice on the underlying assumptions and qualitative characteristics contained in the IASB's 'Framework for the preparation and presentation of financial statements' (20 marks)

QUESTION FOUR

a) Describe some of the analytical uses to which financial statement analysis can be put (10 marks)
b) Discuss the following phrases in the context of financial reporting and analysis
    i.   Government financial statements   (4 marks)
    ii.   Personal financial statements   (3 marks)
    iii. Book value per share (BVPS)   (3 marks)