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**University Examinations 2015/2016**

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC3476: FORENSIC ACCOUNTING**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

The following information was submitted to board of directors of Kama Ltd for review before examination by external auditors. The accounts were for the year to 31/8/15.

**Shs.000**

Sales 82, 000

Cost of goods sold 20, 000

Closing stock 5, 000

Interest on loans 700

Short term investment 2,000

Plant, property, equipment 30,000

Debtors 7,000

Bank and cash 8,000

Sales commissions 2,000

Long term investments 5,000

5 Yrs, 10% KCB loan 7,000

Share capital shs.20 per value 10,000

Product warranty expenses 5,000

Director fees 4,000

Profit balance b/f 3,000

General reserves 5,000

Trade creditors 4,700

On receipts of this information, the directors considered it wise to have external auditors examine the documents. The external auditors sent a team of 3 forensic assistants to very scrutinize authenticate and carry out thorough audit investigations of the transactions.

The forensics experts indentified the following.

1. Item of sale, in the sales account of shs.34, 800, 000 vatable at 16% was included in the sales account intentionally by the accountant, VAT was not recorded in an effort to conceal the tax collude with KRA officials and share the loots as well as enable managers to earn 7% commission for all net sales in excess of 50m rounded off to the next shs.100, 000.
2. A debtors owing shs.2, 000, 000 to the company had been declared bankrupt and in save by the court of appeal in Nyeri and was a close confident of the chairman of board of directors. The transaction was internally hidden from disclosure to other directors by the accountants, yet all along they had facts.
3. Included in the product warranties accounts was shs.2, 400, 000 spent by directors on account of their personal and private affairs, on repairs of their personal private houses, fuel on their personal vehicles, personal leisure and entertainment, personal airtime personal foreign travels for their own private interest which was intentionally and in collusion charged to products warranties to look as operating and business expense allowable for tax and help directors to avoid personal responsibility to pay tax by evading.
4. All other accounts and balances were significantly accurate and relevant. The directors agreed with observations and recommendations of forensic experts and requested the accountants to comply and prepare books as observed. In additions the accountants should provide:

* Shs.3, 000, 000 for Dividends
* Shs.7, 000, 000 for corporation tax
* Shs.8, 000, 000 for depreciations of fixed assets
* Shs.1, 000, 000 Audit fees

**Required:**

1. Statements of income and financial position before the forensic examination for the year to 31.8.15. (10 Marks)
2. Journal entries to reconstruct the accounts in order to take into the forensic observations

(10 Marks)

1. Statement of incomes and financial portion for the year 31.8.15, after forensic examination of accounts. (10 Marks)

**QUESTION TWO (20 MARKS)**

The following negative transactions have come visibly and have been noted by key stakeholders.

* A wheelbarrow being procured at shs.109, 000 (which normally cost shs.5, 000 at most0
* MCA being bought mobile phone as shs.200, 000 per piece
* County vehicles being ordered for 2, 500CC but being delivered as 1, 500cc vehicles but paid for and at prices of 2500 cc vehicles.
* Imprests amounting to shs.67 Billions not being accounted for in government. Majority of the imprest transactions with no supporting documents.
* Cash amounting to shs.2Million disappearing from country treasuries.
* Shs.30Million disappearing from Nyeri equity branch in a very fraudulent scenario.

**Required:**

1. Define the term fraud as used in forensic accounting (2 Marks)
2. Illustrate, Clearly the difference between frauds and accounting errors (3 Marks)
3. What causes frauds in enterprises (6 Marks)
4. What are the consequences of fraud in an enterprise (4 Marks)
5. Highlight the measures that can be put in place by governments and enterprises to combat frauds in organizations and institutions (5 Marks

**QUESTION THREE (20 MARKS**

Njeri was the only full time manager of Igwa Emporium.

The trial balance of Igwa Njogu Emporium was as follows as at 30/10/2015.

**Dr Shs.000 Cr Shs.000**

Sales 84,200

Stock 1/11/14 2, 000

Purchases 34, 000

Salaries & Wages 4, 440

Advertising 1, 450

Telephone & Stationeries 400

Rent of agency office 1, 200

PPE 180, 000

Motor vehicle fuel 1, 262

Bank 13,000

Cash 2, 350

Creditors 7, 000

Debtors 8,500 7, 402

Profit balance 150, 000

Owners capital 248, 602 248, 602

Closing stock shs.1, 200, 000 as at 30th October 2015.

1. Njeru was entitled to a basic salary of shs.100, 000 per month and monthly allowances of shs.70, 000. In additions for all sales in excess of 80 Million was entitled to 30% commission of the extra or excess. He was also entitled to management allowance of shs.15, 000 per meeting for every management board held as he was the secretary but with no voting power. His terms of service were to be reviewed after every four years and for every complete year of service he was entitled to 25% service granting salary not allowances.
2. Upon presentation of accounts trial balances, the management comprising of the owner, the wife and two others with interest in emporium decided to call for forensic review of the accounts which showed that:
3. Njeru had pocketed shs.120, 000 in cash till he had received from customers. No receipts were issued to customers, and many customers provided overriding evidence via Mpesa and other ways of how Njeru received the money.
4. On agency office rent transaction contracts indicated the emporiums was to pay shs.50, 000 per month to landlord. However Njeru paid to the landlord shs.100, 000 monthly but the landlord deposited shs.50, 000 to Njeru personal bank A/c upon receipt of the cheque.
5. Sales account was intentionally overcastted by Njeru to shs.84.2Million instead of 83.6M which was the actual sales figure. The intention for overcastting was to earn higher sales commission. By 31st October 2015 Njeru had already pocketed the cash from the commission.
6. Salaries and wages represent some ghost workers pay totalling shs.240, 000 which Njeru had intentionally been paying through the pay roll transaction but actually pocketing the cash himself. The said ghost workers were mainly his relatives who had died three years ago.
7. The account of motor vehicle fuel expense is inflated by shs.262, 000 which was fuel on Njeru’s personal vehicle, yet he was not authorized or nor the expenditure approved and there was no cause for the expenditure. Njeru pocketed shs.262, 000 through fictitious claims of fuel expense on personal vehicle.
8. On 1.11.2015 Njeru was given compulsory leave to pave way for more interrogations and investigations. On 15.11.2015 Njeru was called to appear before the forensics and management board. He remained silent of all questions asked. He only requested not be taken to court. On the same day he wrote a resignation asking for services gratuity and leave salary for months of November. The Board accepted his resignation and agreed to pay him all that they owed him but subject to him clearing all that he had taken fraudulently from the enterprise. During the period to 31.10.2015, the enterprise owed Njeru Kshs.75, 000 on management allowances earned on attending boards meetings and serving as a secretary. He had served the enterprise for 4 years upon to the final close of books of accounts on 31.10.2015. Monthly pay is subject to net personal tax 25% on monthly salaries and allowances. However gratuity and management allowances are not taxed, as well as sales commissions.

**Required:**

1. Journal entries to show recovery of assets lost (cash) from Njeru’s gratuity (10 Marks)
2. Statements of financial positions and statement of income for the year to 31.10.2015. After recovery of lost assets (cash) from the manager (10 Marks)

**QUESTION FOUR (20 MARKS)**

1. Highlight at least FIVE indicators of corruption in an enterprise or a public office (5 Marks)
2. What circumstances or behaviours that may constitute corruption when conduction or processing a business transaction or even or affairs. (5 Marks)
3. Discuss measures that governments and societies can take to decrease and combat corruption (5 Marks)

**QUESTION FIVE (20 MARKS**

1. Failure to observe and practice good corporate governance and regular financial reporting is the root cause of frauds and corruption. To what extent do you agree with this statement? Discuss (6 Marks)
2. Explain the following terms as used in forensic accounting
3. Money laundering (3 Marks)
4. Theft by employees (3 Marks)
5. Abuse of office (2 Marks)
6. Embezzlement and swindling of public funds (2 Marks)
7. Is legislation enough to control and combat the vices in (b) above in Kenya? Discuss

(4 Marks)