

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2015/2016

**EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBA 2301: FINANCIAL REPORTING**

**DATE: APRIL 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND**

**ANY OTHER TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

(a) Give five uses of financial statements. (5 marks)

(b) Financial information for Safaricom Company Ltd as at December 31, 2006 is based on the following information: Cash Shs.300,000, patents and copyright Shs.775,000, Account Payable Shs.700,000, Account receivable Shs.150,000, tangible net fixed assets Shs.3,500,000, Inventory Shs.425,000, Notes payable Shs.145,000, Accumulated retained earnings Shs.2,150,000 and Longterm debt Shs.1,300,000.

REQUIRED:

i) Prepare a balance sheet for Safaricom Company Ltd. (8 marks)

ii) Estimate the owner’s equity. (2 marks)

(c) In Kenya which body is mandated in administering financial reporting and accounting standards reporting. What are its major

functions? (5 marks)

(d) Briefly explain how inflation or changing prices affect financial reports (statements) in two principal ways. (5 marks)

(e) Briefly explain the objectives of using liquidity ratios and market profitability ratios in financial ratio analysis. (5 marks)

**QUESTION TWO (20 MARKS)**

(a) Give five uses of financial ratios. (5 marks)

(b) A balance sheet and income statement for Kengen Company Ltd in given below:

KENGEN CORPORATION LTD

BALANCE SHEET

AS AT 31ST DECEMBER 2000

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS | USD | LIABILITIES | USD |
| Current assets |  | Current liabilities |  |
| Cash | 100 | Notes payable | 140 |
| Account receivable | 180 | Account payable | 1,040 |
| Inventory | 370 |  |  |
| Total | 650 | Total | 1,180 |
|  |  |  |  |
| Fixed assets |  | Long –term liabilities |  |
| Plant and equipments | 5,350 | Long -term Debt | 2,080 |
| Total |  | Common stock | 300 |
|  |  | Retained earnings | 2,440 |
| Total assets | 6,000 | Total | 4,820 |
|  |  | Total Liabilities | 6,000 |

KENGEN CORPORATION LTD

INCOME STATEMENT AS AT 31ST DECEMBER 2000

|  |  |
| --- | --- |
| Revenues (Sales) | 3,750 |
| Expenses (Cost of goods) | (2,450) |
| Depreciation | (490) |
| EBIT | 810 |
| Interest Payments | (610) |
| Taxes | (70) |
| Net income | 130 |
| Dividends | (40) |
| Retained earnings | 90 |

**REQUIRED:**

Based on the information given form the balance sheet and income statement, calculate the following financial ratios. (15 marks)

i) Current ratio

ii) Total debt ratio

iii) Earnings per share

iv) Dividend per share

v) Profit margin in ratio

**QUESTION THREE (20 MARKS)**

Atlantic Corporation is a domestic company ltd also a US Parent Company, establishes a foreign subsidiary in the UK by investing $200 on January 1, year 1, in return for all of the subsidiary’s common stock. The US dollar and UK pound exchange at the rate of $2: £1 on this date. The subsidiary engages in the following transactions during year 1.

1. Acquires property, plant and equipment on January 2, year 1, costing £400. It finances the acquisition with £350 of longterm debt and £50 of cash.

2. Acquires inventory on account totaling £750. The subsidiary uses a weighted average cost flow assumption.

3. Sells on account for £900 and inventory costing for £600.

4. Pays selling and administrative expenses of £70, interest expenses of £40, and income tax expenses of £30.

5. Recognizes £40 as depreciation expenses.

6. Pays no dividends to the US Parent Company.

7. The average exchange rate during year I was $2.1: £1, and the exchange rate on December 31, year 1, is $2.2:£1. The increase in the number of US dollar required to purchase one UK Pound means that the US dollar declined in value relative to the UK Pound.

i) All-current translation methods. (5 marks)

ii) Monetary – non monetary translation method. (5 marks)

**QUESTION FOUR (20 MARKS)**

(a) Briefly explain how assets valued using each of the following measurement methods:

i) Historical cost accounting (HCA) method (5 marks)

ii) Current Cost Accounting (CCA) method (5 marks)

(b) Given the balance sheet below:

CONVENTIONAL BALANCE SHEET AS AT 31ST DECEMBER 1988

|  |  |  |  |
| --- | --- | --- | --- |
| ASSETS | USD | LIABILITIES | USD |
| Monetary assets | 100 | Liabilities | 450 |
| Inventory | 100 | Capital stock | 200 |
| Shares | 70 | Retained earnings | 120 |
| Depreciable assets | 400 |  |  |
| Land | 100 |  |  |
| Total assets | 770 | Total liabilities | 770 |

However, other data provided is given below:

i) Given 20% inflation during 1989.

ii) During 1989 the company neither invested nor disposed of shares or fixed assets also no equity additions or withdrawals occurred.

iii) Therefore the recorded nominal value of the shares, land and capital stock did not change during the year.

iv) The acquisition cost of the recorded value of the depreciable assets declined only by the nominal depreciation of $100.

v) The retained earnings increased by $50 as determined by the convention income statement.

vi) The entire items in the statement are recorded at historical values.

**REQUIRED:**

Prepare a balance sheet as at 31st December 1989 sharing current list accounting. (10 marks)