****

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

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2012/2013

**END OF SEMESTER EXAMINATION FOR DEGREE IN PhD IN BUSINESS ADMINISTRATION**

**DBAA 4108:** **FINANCIAL REPORTING**

**DATE: AUGUST 2012 TIME: 3 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND OTHER TWO**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**QUESTION ONE**

(a) Explain the various types of financial reports. (4 mks)

(b) Explain the users of financial statements. (5 mks)

(c) The machinery tht originally cost sh10,000 has after several years of use recorded depreciation of sh.8000. This machine has an undepreciated cost of sh. 2,000 and was disposed for sh. 3,000.

Required:

The accounting entry to record the disposal of this machinery. (5 mks)

(d) Distinguish between investment properties and non investment properties. (5 mks)

(e) Explain the scope of social accounting. (5 mks)

(f) Explain the two events after the balance sheet date according to international accounting standards (IAS 10). (6 mks)

**QUESTION TWO**

(a) Explain the accounting treatment of trade in allowances and the list price in relation to accounting for price changes. (3 mks)

(b) An old truck had been acquired for sh.160,000. It is estimated useful life is 5 years with no residue value. After four years, it was traded in for a new

truck at a list price of sh. 200,000. A trade in allowance of sh.48,000 was granted.

Required:

(i) Determine the cost of the new truck (5 mks)

(ii) Pass the journal entries to record the above accounting information.

(5 mks)

(iii) Explain how loss on sale of an asset is computed. (2 mks)

**QUESTION THREE**

(a) Explain the advantages of FIFO method of valuation of inventory

(4 mks)

(ii) The following information relates to the store ledger of Kimbo Limited

|  |  |  |  |
| --- | --- | --- | --- |
| Jan 1 | Opening balance | 800 units | @ 40 |
| Jan 5 | Received from vendor | 300 units | @42.50 |
| Jan 20 | Received from vendor | 400 units | @45.00 |
| Jan 25 | Received from vendor | 300 units | @42.50 |
| Material issued out were as follows | | | |
| Jan 4 | 600 units | Shs.44 |  |
| Jan 15 | 250 units | Sh.47 |  |
| Jan 26 | 450 units | Sh. 46 |  |

Required:

(i) Compute the value of the closing inventory using FIFO (4 mks)

(ii) Compute the value of the closing inventory using LIFO (4 mks)

(c) Explain the assumptions of efficient market hypotheses when reporting to investor. (3 mks)

**QUESTION FOUR**

(a) Discuss the approaches applicable to models of disclosures in social accounting. (6 mks)

(b) Explain the implications of social accounting. (9 mks)

**QUESTION FIVE**

Kombo limited extracted the following trial balance as at 31 October 2011

|  |  |  |
| --- | --- | --- |
|  | Sh. “000” | Sh. “000” |
| Plant, property and equipment cost | 907,722 |  |
| Accumulated depreciation |  | 108,000 |
| Intangible assets | 120,000 |  |
| Inventories | 120,700 |  |
| Accounts receivable | 168,120 |  |
| Provision for doubtful debts |  | 620 |
| Cash in hand | 100 |  |
| Accounts payable |  | 127,450 |
| Bank overdraft |  | 50,754 |
| 12½ debentures |  | 200,000 |
| Bank loan |  | 270,000 |
| Corporation tax |  | 47,500 |
| Share capital |  | 60,000 |
| Retained profits |  | 119,046 |
| Sales |  | 1574500 |
| Cost of sales | 670396 |  |
| Salaries and wages | 238,720 |  |
| Distribution costs | 86,560 |  |
| Administration expenses | 165,592 |  |
| Interest charges | 79,960 | \_\_\_\_\_\_\_\_\_\_ |
|  | 2,557,870 | 2,557,870 |

Additional information

Details of property, plant and equipment were as follows:

Valuation as at 1st November 2010

|  |  |  |
| --- | --- | --- |
|  | Sh. “000” | Accumulated depreciation |
| Freehold property (land sh.350, million) | 500,000 | - |
| Plant and machinery | 200,000 | 90,000 |
| Office equipment | 107,722 | 18,000 |
|  | 807,722 | 108,000 |

The company had not been providing for depreciation on freehold property which comprised land and buildings. These were acquired on 1 November 2001 on life of 50 years. The directors have now agreed to provide depreciation from the date of acquisition.

1. Depreciation on other items of property, plant and equipment is to be provided for as follows:

Plant and machinery - 15% on straight line basis

Office equipment - 10% as reducing balance basis

A plant which cost 100 million was acquired during the year.

2. The cost of inventory as at 31 December 2011 included items valued at sh. 9.6 million that were considered to be obsolete. The remaining had a value of 111.1 million.

3. Provision for doubtful debts at 5% of the accounts receivable is to be made.

4. The corporation tax amounting to sh.47.5 million represents the estimated tax charge for the previous year. This liability was agreed with the tax authority at sh.45 million. Current year tax is estimated to be sh.85 million

6. The details of salaries and wages were:

Sh.”000”

Factory wages 125,510

Warehouse wages 32,716

Office salaries 79,780

Directors remuneration 714

238,720

The interest charges comprise:

Bank overdraft 25,460

Bank loan interest 42,000

12½% debenture interest 12,500

79,960

8. Intangible assets are to be amortized over 5 years. Amortization and depreciation charges are to be treated as part of costs of sales

9. the directors proposed to pay dividends amounting to sh.20 million in respect of the year ended 31 October 2011.

Required:

(a) Income statement for the year ended 31 October 2011 (6 mks)

(b) Statement of change in equity for the year ended 31 October 2011 (show the column for retained earnings only) (2 mks)

(c) Statement of financial position as at 31 October 2011. Include relevant notes using only the information provided to ensure that the financial statements meet the requirements of international financial reporting standards (IFRS) (7 mks)