



JOMO KENYATTA UNIVERSITY

OF

AGRICULTURE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2017/2018

FOURTH YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF SCIENCE IN ACTUARIAL SCIENCES

HRD 2402: FINANCIAL REPORTING & INTERPRETATION OF ACCOUNTS

DATE: JANUARY 2018

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Answer questions ONE (section A) and any two questions in section B
2. Be neat and show all your workings
3. All questions except question one carry equal marks

This paper consists of 5 printed pages

STACS Examination board 2017/2018

SECTION A

Section 1 (a).

1. A technique uses in comparative analysis of financial statement is
 A graphical analysis B preference analysis C. common size analysis D. returning analysis E. all of the above
2. Net income available to stockholders is Sh125 and total assets are Sh1,096 then return on common equity would be
 A. 0.11% B. 11.40% C. 0.12 times D 12% E. None of the above
3. Price per share is Sh30 and an earnings per share is Sh3.5 then price for earnings ratio would be
 A. 8.57 times B. 8.57% C. 0.11 times D. 11% E. 10%
4. Price per share is Sh25 and cash flow per share is Sh6 then price to cash flow ratio would be
 A. 0.24 times B. 4.16 times C 4.16% D 24% E. 0.16%
5. Low price for earnings ratio is result of
 A low riskier firms B high riskier firms C. low dividends paid D. high marginal rate
 E. middle dividend paid
6. A firm has a higher quick (or acid test) ratio than the industry average, which implies ^{(over all) (ing)}
 A. the firm has a higher P/E ratio than other firms in the industry
 B. the firm is more likely to avoid insolvency in the short run than other firms in the industry
 C. the firm may be less profitable than other firms in the industry
 D. the firm has a higher P/E ratio than other firms in the industry and the firm is more likely to avoid insolvency in the short run than other firms in the industry
 E. the firm is more likely to avoid insolvency in the short run than other firms in the industry and the firm may be less profitable than other firms in the industry
7. A firm has a lower quick (or acid test) ratio than the industry average, which implies
 A. the firm has a lower P/E ratio than other firms in the industry
 B. the firm is less likely to avoid insolvency in the short run than other firms in the industry
 C. the firm may be more profitable than other firms in the industry
 D. the firm has a lower P/E ratio than other firms in the industry and the firm is less likely to avoid insolvency in the short run than other firms in the industry
 E. the firm is less likely to avoid insolvency in the short run than other firms in the industry and the firm may be more profitable than other firms in the industry
8. An example of a liquidity ratio is _____
 A. fixed asset turnover B. current ratio C. acid test or quick ratio D. fixed asset turnover and acid test or quick ratio E. current ratio and acid test or quick ratio
9. _____ a snapshot of the financial condition of the firm at a particular time
 A. The balance sheet provides B. The income statement provides C. The statement of cash flows provides D. All of these provide E. None of these provides

10. _____ of the cash flow generated by the firm's operations, investments and financial activities
 A. The balance sheet is a report B. The income statement is a report ✓ C. The statement of cash flows is a report D. The auditor's statement of financial condition is a report E. None of these is a report
11. A firm has a higher asset turnover ratio than the industry average, which implies
 A. the firm has a higher P/E ratio than other firms in the industry.
 B. the firm is more likely to avoid insolvency in the short run than other firms in the industry.
 C. the firm is more profitable than other firms in the industry.
 ✓ D. the firm is utilizing assets more efficiently than other firms in the industry.
 E. the firm has higher spending on new fixed assets than other firms in the industry
12. A firm has a lower asset turnover ratio than the industry average, which implies
 A. the firm has a lower P/E ratio than other firms in the industry.
 B. the firm is less likely to avoid insolvency in the short run than other firms in the industry.
 C. the firm is less profitable than other firms in the industry.
 D. the firm is utilizing assets less efficiently than other firms in the industry.
 ✓ E. the firm has lower spending on new fixed assets than other firms in the industry.
13. If you wish to compute economic earnings and are trying to decide how to account for inventory,

 A. FIFO is better than LIFO B. LIFO is better than FIFO C. FIFO and LIFO are equally good D. FIFO and LIFO are equally bad E. None of these is correct.
14. _____ of the profitability of the firm over a period of time such as a year.
 A. The balance sheet is a summary ✓ B. The income statement is a summary C. That statement of cash flows is a summary D. The audit report is a summary E. None of these is a summary
15. If the interest rate on debt is higher than ROA, then a firm will _____ by increasing the use of debt in the capital structure
 A. increase the ROE B. not change the ROE ✓ C. decrease the ROE D. change the ROE in an indeterminable manner E. None of these is correct.
16. If the interest rate on debt is lower than ROA, then a firm will _____ by increasing the use of debt in the capital structure.
 ✓ A. increase the ROE B. not change the ROE C. decrease the ROE D. change the ROE in an indeterminable manner E. None of these is correct
17. A firm has a market to book value ratio that is equivalent to the industry average and an ROE that is less than the industry average, which implies _____
 A. the firm has a higher P/E ratio than other firms in the industry
 B. the firm is more likely to avoid insolvency in the short run than other firms in the industry
 C. the firm is more profitable than other firms in the industry
 D. the firm is utilizing its assets more efficiently than other firms in the industry
 E. None of these is correct
18. In periods of inflation, accounting depreciation is _____ relative to replacement cost and real economic income is _____
 A. overstated, overstated
 B. overstated, understated
 ✓ C. understated, overstated
 D. understated, understated
 E. correctly, correctly

19. If a firm has a positive tax rate, a positive ROA, and the interest rate on debt is the same as ROA, then ROA will be _____.

- A. greater than the ROE
- B. equal to the ROE
- C. less than the ROE
- D. greater than zero but it is impossible to determine how ROA will compare to ROE
- E. negative in all cases

20. A firm has a P/E ratio of 12 and a ROE of 13% and a market to book value of _____.

- A. 0.64
- B. 0.92
- C. 1.08
- D. 1.56
- E. None of these is correct.

Section 1 (b)

Q1 b. The financial statement of an insurance company are usually prepared in accordance with the format laid down by the regulatory body. Lists and explain any FIVE contents of audited financial statements you know (10 marks).

SECTION B (Answer two questions from this section)

Question 2

You have been asked to prepare the final accounts for W Muthuri, a sole trader, for the year ended 31 December 2013. W Muthuri has forwarded to you all books of prime entry and ledgers, and in addition has given you the following information:

- i) Mr Muthuri had taken Sh2,000 out of the business bank account to take his wife on holiday to Mombasa.
- ii) Up to last year the machinery and vehicle used in the business had been depreciated using the reducing balance method. W Muthuri thinks that they should now be depreciated using the straight line method.
- iii) Mr Muthuri is confident, given his order book, that the business will continue to operate in its present form for many years.
- iv) Mr Muthuri had purchased ten staplers, four flip charts and four packets of whiteboard markers which will be used in the business for the next couple of years.
- v) Mr Muthuri informs you that he has just found an unopened electricity bill for Sh900 which was for the quarter October to December 2013.

Required

In each case, identify and then explain the main accounting concepts being highlighted and indicate how each should be treated in the final accounts. (20mrks)

Question 3

The following trial balance has been extracted by the book-keeper of Paul Scottis, who owns a small manufacturing business, as at 30 June 2013.

	Dr Shs	Cr Shs
Capital		36,175
Drawings	19,050	
Purchases and sales	105,240	168,432
Stock at 1 July 2012	9,427	
Debtors and creditors	3,840	5,294
VAT		1,492
Returns	975	1,237
✓ Discounts	127	643
✓ Wages and salaries	30,841	
✓ Motor vehicle expenses	1,021	
✓ Rent and rates	8,796	
Heating and lighting	1,840	
Telephone	355	
General expenses	1,752	
Bad debts written off	85	
Motor vehicle at cost	8,000	
Provision for dep on motor vehicles		3,500
Shop fittings at cost	6,000	
Provision for dep on shop fittings	2,000	
Provision for bad debts		150
Cash	155	
Bank	21,419	
Total	218,923	218,923

Notes as at 30 June 2013.

1. Stock was valued at Shs11,517.
2. Motor vehicles expenses owing Shs55.
3. Rent prepaid Shs275.
4. Depreciate shop Fixtures and Fittings at 10% using the straight line method and motor vehicles at 25% employing the reducing balance method.
5. The provision for bad debts is to be equal to 2.5% of debtors

REQUIRED

Use the trial balance and accompanying notes to prepare the final accounts of the business for the year ended 30 June 2013. Show your workings clearly (20 marks)

Question 4

There are many stakeholders who would have a vested interest in the final accounts of an organisation as users of the information provided by the reporting entity

REQUIRED

Name five external and five internal stakeholders and provide in detailed what type of information they would be looking for in the information provided by the reporting entity? (20 marks)