



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

DIPLOMA IN ACCOUNTING

COURSE CODE: DBAC 016

COURSE TITLE: FINANCIAL REPORTING

DATE: 7th AUGUST 2018

TIME: 3.00 PM – 6.00 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

a) Financial reports are useful to different parties explain

[8 marks]

Brick And Stone.

Trial Balance As At 30 September 19x9

	Debit	Credit
	£	£
Printing and stationery and postage	3,500	
Sales		322,100
Stock (1 October 19X8)	23,000	
Purchases	208,200	
Rent and rates	10,300	
Heat and light	8,700	
Staff salaries	36,100	
Telephone charges	2,900	
Motor vehicle running expenses	5,620	
Discounts allowable	950	
Discounts receivable		370
Sales returns	2,100	
Purchases returns		6,100
Carriage inwards	1,700	
Carriage outwards	2,400	
Fixtures and fittings at cost	26,000	
Provision for depreciation		11,200
Motor vehicles at cost	46,000	
Provision for depreciation		25,000
Provision for doubtful debts		300
Drawings: Brick	24,000	
Stone	11,000	
Current accounts:		
Brick		3,600
Stone		2,400
Capital accounts:		
Brick		33,000
Stone		17,000
Debtors		9,300
Creditors		8,400
Balance at bank	<u>7,700</u>	
	<u>429,470</u>	<u>429,470</u>

Additional information

1. £10,000 is to be transferred from Brick's capital account to a newly opened Brick Loan Account on 1 July 19X9.
2. Interest at 10 per cent per annum on the loan is to be credited to Brick.

3. Stone is to be credited with a salary at the rate of £12,000 per annum from 1 April 19X9.
4. Stock in hand at 30 September 19X9 has been valued at cost at £32,000.
5. Telephone charges accrued due at 30 September 19X9 amounted to £400 and rent of £600 prepaid at that date.
6. During the year ended 30 September 19X9 Stone has taken goods costing £1,000 for his own use.
7. Depreciation is to be provided at the following annual rates on the straight line basis:

Fixtures and fittings	10%
Motor vehicles	20%

Required:

- i) Statement of comprehensive incomes for the year ended 30 September 19X9. [12 mark]
 - ii) Prepare a statement of financial position as at 30 September 19X9 which should include summaries of the partners' capital and current accounts for the year ended on that date. [12marks]
- C) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
- i. The Going concern concept. [2 marks]
 - ii. Business entity concept. [2marks]
 - iii. Materiality. [2marks]
 - iv. Realization. [2 marks]

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) List the main advantages of ratio analysis. [5 marks]
- b) Munyah Ltd. is an expanding company and the following accounts relate to its operations for the years 1999 and 2000:

Profit statement for the year ended 30 June

	1999	2000
	Sh.	Sh.
Sales	3,000,000	4,800,000
Less: cost of goods sold	<u>1,650,000</u>	<u>2,700,000</u>
Gross profit	1,150,000	2,100,000
Less: trading expenses	<u>675,000</u>	<u>825,000</u>
Trading profit	675,000	1,275,000
Less: Debenture interest	<u>37,500</u>	<u>37,500</u>
Net profit before taxation	637,500	1,275,000
Less: Corporation tax	<u>240,000</u>	<u>480,000</u>
Net profit after taxation	397,500	757,500
Less: Ordinary share dividend	<u>187,500</u>	<u>262,500</u>
Undistributed profit for the year	210,000	495,000

Balance sheet as at 30 June	1999		2000	
	Sh.	Sh.	Sh.	Sh.
Fixed assets at cost	1,500,000		2,100,000	
Less: Depreciation	<u>300,000</u>	1,200,000	<u>375,000</u>	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	<u>120,000</u>		<u>1,350,000</u>	
Less: current liabilities		1,095,000		
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed dividend	187,500		262,500	
Bank overdraft	_____		<u>97,500</u>	
		<u>(645,000)</u>		<u>(1,140,000)</u>
		<u>1,650,000</u>		<u>1,935,000</u>
Financed by:				
Ordinary share capital (Authorised and issued)		750,000		750,000
Undistributed profits		525,000		1,020,000
10% debentures		<u>375,000</u>		<u>165,000</u>
		<u>1,650,000</u>		<u>1,935,000</u>

Required:

- (i) Compute six accounting ratios for both 1999 and 2000(1 which you feel would be of particular value in assessing the Profitability and Liquidity of Munyah Ltd. [12 marks]
- (ii) Comment on the current position of the company with the aid of the accounting ratios computed in (i) above and any other information that you consider to be relevant.

[3marks]

Question three

- a) What is an “accounting policy”? [2 marks]
- b) Give a clear distinction between ;
- i. A Partnership and A sole trader [8 marks]
 - ii. Partnership and a company [8marks]
 - iii. Rights issue and a bonus share [2 marks]

Question Four

- a) Explain giving examples the distinguishing features of liabilities, provisions and reserves. [12 marks]
- b) State how each of these items in (a) above are to be included and shown in the financial statements of a company [8 marks]

Question Five

- a) Give a brief definition of memorandum of association and certificate of incorporation.

[5 marks]

- b) Radhi Tea Company Limited has an authorized share capital of Sh. 10,000,000 ordinary shares of Sh.10 each. The shares were issued at par as follows:

Payable on application Sh.1.00

Payable on allotment Sh.3.00

Payable on first call Sh.4.00

Payable on second call Sh.2.00

Applications were received for 1,630,000 shares.

It was decided to refund applicants monies on 130,000 shares and to allot all the shares on the basis of two for every three applied for.

The excess application monies received from the successful applicants is not to be refunded but is to be applied to reduce the amount payable on allotment.

The calls were made and paid in full with the exception of one member of one member holding 5,000 shares who paid neither the first nor the second call and another member who did not pay the second call on 1,000 shares. After requisite action by the directors the shares were forfeited. They were later reissued at a price of Sh.8 per share.

Required:

The necessary ledger accounts to record these transactions

[15 marks]