



Quality Education for the Real World

GRE TSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2023 SEMESTER

DIPLOMA IN ACCOUNTING

COURSE CODE: DBAC 018

COURSE TITLE: FINANCIAL REPORTING

DATE: 31 JULY 2023

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) Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders **[5 Marks]**

b) Jimmy and Billy are in partnership and according to their partnership agreement they share profits and losses equally, interest is allowed on capital at 5% p.a.

Jimmy is entitled to a salary of sh. 500,000. the following trial balance is extracted from their books on 31 December 2022.

Trial balance as at 31 December 2022 .

	Dr. Shs.000	Cr. Shs.000
Premises	6,000	
Carriage	100	
Bad debts	50	
Purchase and sales	16,000	28,000
Returns	80	60
Salaries	1,400	
Rates and taxes	400	
Insurance	140	
Cash in hand	700	
Stock 1 January 2022	3,500	
Fixtures and fittings	4,500	
Wages	2,600	
Capital: jimmy	-	6,000
Billy	-	6,000
Current: jimmy	100	-
Billy		150
Drawing: jimmy	800	
Billy	900	
Debtors and creditors	8,000	5,000
Provision for bad debts	-	250
Discounts	100	20
Office expenses	110	=
	45, 480	45,480

Additional information

1. Stock on 31 December 2022 was shs 2,800, 000
2. Shs 60,000 of the carriage is for carriage in.
3. Depreciate fixtures and fittings by 10% p.a.
4. Wages accrued shs 400,000.
5. Provision for bad debts to equal 10% of debtors.

- c) List five main advantages of ratio analysis. **[10 Marks]**

- d) State and explain 3 parts of cash flow statement in financial statement. **[6 Marks]**

Required

- i.** Income statement and appropriation for the year ended 31 December 2022. **[8 Marks]**
- ii.** A current account **[3 Marks]**
- iii.** Statement of financial position as at 31 December 2022 **[8 Marks]**

QUESTION TWO

The following financial statements relates to ABC LTD

Profit and Loss A/c for the year ended 31.12.1992

	<u>Sh</u>	<u>Sh</u>
Sales		850,000
Less: Cost of Sales Opening stock	99,500	
Purchases	<u>559,500</u>	
	659,000	
Less: Closing stocks	<u>[149,000]</u>	<u>[510,000]</u>
Gross profit		340,000
Less expenses		
Selling and distribution	30,000	
Depreciation	10,000	
Administration expenses	<u>135,000</u>	<u>[175,000]</u>
Earnings before interest & taxes		165,000
Interest		<u>[15,000]</u>
Earnings before tax		150,000
Tax @ 50%		<u>75,000</u>
Less ordinary dividend [0.75 per share]		75,000
Retained profit for the year		<u>[15,000]</u>

60,000

ABC

Balance Sheet as at 31 December 1992

Non Current Assets	Sh.	Issued share capital	Sh.
Land and Buildings	250,000	[20000 share of Sh, 10]	200000
Plant & Machinery	80,000		90000
	330,000	Reserve	60000
Current Assets	—	Retained profit	100000
Inventory	149,000	Long term	130000
Debtors	75,000	Current liabilities.	
Less provision	[4,000]71,000		
Cash	30,000		
	580,000		580,000

Additional Note

Cash purchases amount to 14,250.

Required

Compute the following ratios

- i) Acid test ratio **[3 Marks]**
- ii) Gross profit and net profit margin and Mark up ratios **[6 Marks]**
- iii) Net working capital ratio **[4 Marks]**
- iv) Debt to equity ratio **[4 Marks]**
- b) Explain three limitations of use of ratios in financial analysis **[3 Marks]**

QUESTION THREE

a) The following trial balance of was extracted from the books of P Boones

	Dr	Cr
	£	£
Stock 1 October 2002	23,680	
Carriage outwards	2,000	
Carriage inwards	3,100	
Returns inwards	2,050	
Returns outwards		3,220
Purchases	118,740	
Sales		186,000
Salaries and wages	38,620	
Rent	3,040	
Insurance	780	
Motor expenses	6,640	
Office expenses	2,160	
Lighting and heating expenses	1,660	
General expenses	3,140	

Premises	50,000	
Motor vehicles	18,000	
Fixtures and fittings	3,500	
Debtors	38,960	
Creditors		17,310
Cash at bank	4,820	
Drawings	12,000	
Capital		126,360
	<u>332,890</u>	<u>332,890</u>
Required		

- i) Prepare the income statement for the year ending 30th September 2003 **[12 Marks]**
- ii) Prepare the statement of financial position as at that date **[8 Marks]**

QUESTION FOUR

From the following trial balance of Bondeni ltd for the year ended 31st December 2022

Profit and loss account 31 December 2021	Shs. 000	Shs. 000
		23,000
Sales		52,000
Purchases	33,000	
Stock in trade 31 december 2021	9,660	
Premises	135,000	
Equipment	25,000	
Vehicles	16,000	
bank	9,600	
Wages	14,500	
Insurance	2,340	
Preference share capital [shs 1 share]6%		50,000
Ordinary share capital [shs1]		120,000
Provision for bad debts		450
General reserve	12,400	7,800
Debtors		7,000
Creditors	3,250	
Rent	260,750	260,750

Additional information

- Stock in trade at 31 December 2022 was shs 10, 660, 000
- Prepaid wages shs 320, 000
- Insurance owing shs 45, 000
- The provision for debtors are to be maintained at 5 %
- Corporation tax is to be provided for at shs 1,600,000
- The preference dividend is to be provided for and an ordinary dividend of 5% is also to be provided for.

Required.

Prepare income statement for the year ended 31st December 2022

[10 Marks]

Prepare statement of financial position as at 31st December 2022

[10 Marks]

QUESTION 5

a) Explain the principle distinction between a partnership and a company

[10 Marks]

b) Explain the contents of a partnership deed

[10 Marks]