



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CBF 321: FINANCIAL REPORTING AND ANALYSIS

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Date: JULY 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

Q1. a) State the functions of the note the financial statement according to the IAS. **(6 marks)**

b) XYZ Company
Corporation Balance Sheet
As the year ended 31st December 2011

	2011 shs "000"	2010 Shs "000"
Assets		
Cash	57,870	66,200
Debtors	137,180	117,800
Stock	211,500	190,150
Prepaid expenses	5,160	6,120
Investments	44,500	93,000
Land	77,250	75,000
Buildings	412,500	225,000
Accumulated depreciation	(91,260)	(81,220)
Equipment	493,700	437,500

Accumulated depreciation	<u>(179,700)</u>	<u>(149,750)</u>
Total assets	<u>1,168,700</u>	<u>980,300</u>
Liabilities and owners equity		
Creditors	58,715	51,875
Accrued expenses	11,000	10,500
Interested payable	5,000	3,500
Dividends payable	15,660	12,500
Mortgage not payable	175,000	_____
Bonds payable	100,000	
Common stock and 25 per value	450,000	375,000
Paid in capital in excess of par	47,250	41,250
Returned earnings	<u>304,200</u>	<u>228,800</u>
Total liabilities and owners equity	1,168,700	980,300

The company's income statement for the year ended December 31, 2011 is as follows:

XYZ Company

Income Statement

For the year ended December 31, 2011

	"000"	"000"
Sales		1,520,700
Cost of sales		<u>1,110,200</u>
Gross profit		410,500
Operating expenses		
Depreciation	39,900	
Other operating expenses	227,110	
Total operating expenses		<u>267,100</u>
		143,400
Other income		
Gain on sale of land	20,500	
Gain on sale of investment	11,000	-31,500
		174,900

Other expenses		
Interest expenses		<u>25,000</u>
Income before tax		149,900
Income tax		<u>38,500</u>
Net income		<u>111,400</u>

Additional information

- i Investments (longterm) were purchased for 40,500
- ii Investments (longterm) costing sh 39,500 were sold for sh 100,500.
- iii Equipment was purchased for 56, 200 there were no disposals.
- iv A building valued at sh 187,500 and land valued at 62,500 were acquired by cash payment of 250,000
- v Land which originally cost 60,250 was sold for 80,750 cash.
- vi A mortgage was payable for sh 175,000 was issued for cash.
- vii Bonds payable of sh 150,000 were returned by the payment of their face amount.
- viii 3,000 shares of common stock were issued for cash at 27.
- ix Cash deliveries of 36,000 were declared

Required:

Prepare the cash flow statement according to the IAS7. **(17 marks)**

- c) Mama Noel purchased two wedding gowns making machines on 11/01/2013 at a cost of Ksh 150,000 each. Each had an estimates life of five years and nil residual value. The straight line method of depreciation is used. Due to high rate of divorce and low demand for wedding gowns, mama Noel decided to reduce her output of wedding gowns and switch to making other products instead. On 31st March 2014, one machine was sold on credit for 80,000. Later in the year, it was decided to abandon production of wedding gowns altogether, and the second machine was sold on December 2014 for 25,000 cash.

Required:

- i Machinery account. **(2 marks)**
- ii Depreciation of machinery account. **(2 marks)**
- iii Disposal of machinery account. **(3 marks)**

NB Show your working clearly.

Q2. a) The recent financial statement of JRB Ltd was as presented below

JRB Ltd

Statement of financial position

As at 30th June 2015

Assets	
Non current assets	
Freehold property (book value)	240,000
Plant and machinery	400,000
Motor vehicle	<u>200,000</u>
	840,000
Current assets	
Inventory/stock	500,000
Debtors	200,000
Investments	60,000
	760,000
Total assets	<u>1,600,000</u>
Liabilities and owners equity	
Issued and fully paid sh200,000 ordinary shares	200,000
Capital resources	100,000
Revenue reserves	453,600
Shareholders equity	753,600
Non current liabilities	
200,000 10y sh 1 debentures	200,000
Current liabilities	
Creditors	119,200
Tax payable	33,000

Bank overdraft (second)	<u>439,200</u>
Total equity and liabilities	1,600,000

JRB Ltd

Income Statement

For the year ended June 2015

Sales (all on credit)	<u>2,000,000</u>
Profit after charging all expense except	
Debenture interest	220,000
Debenture interest	<u>(20,000)</u>
Profit before taxation	200,000
Income tax expense	(88,000)
Profit after tax	112,000
Ordinary dividend proposed	(53,600)
Retained profit transferred to revenue reserve	58,000

Additional information

- i Authorised share capital 400,000 sh 1 ordinary share
- ii The directors have proposed a dividend payment of sh 53,600
- iii Stock purchased during the year sh 1,080,000
- iv Cost of sales for the year 1,500,000
- v The market price of a JRB Ltd ordinary share at June 30th 2015 was sh 4.

Required:

Compute the following ratio providing their formular.

- i Return on owners equity. **(2 marks)**
- ii Profit margin. **(2 marks)**
- iii Current ratio. **(2 marks)**

- iv Average collection period. **(2 marks)**
 - v Price earning ratio. **(2 marks)**
 - vii ROCE. **(2 marks)**
 - viii Dividend payout ratio. **(2 marks)**
 - ix Interest coverage ratio. **(2 marks)**
 - b) State the limitation of financial statements information. **(4 marks)**
- Q3. a) Discuss the concept of corporate governance and any two theories of corporate governance. **(10 marks)**
- b) Describe the objectives of financial reporting according to the financial accounting standard board. (FASB) **(6 marks)**
- c) Define earnings per shares (EPS) and state the reasons for it to be considered as one of the best measures of firm's performance. **(4 marks)**
- Q4. a) Define the statement of changes in equity. **(2 marks)**
- b) The following balances remained in the ledger of Mrs R.B.K Ltd after preparations of the income statement for the year ending 31/12/2012

	Sh "000"
Stock	52,000
Debtors	24,000
Ordinary share capital	100,000
8% preference share capital	50,000
Account payable	37,000
Balance at bank	14,000
General reserve	30,000
Retined profit 2011	27,000
Net profit for the year 2012	29,000
Non current assets at cost less, depreciation	167,000

The general propose

- i A transfer of general reserve of 10,000
- ii Payment of the preference dividend and a 12 dividend on the ordinary shares (dividends relating to 2011 were paid in December 2012 at the same rate)

Required:

Prepare Mrs RBK's statement of changes in equity for the year ended 31/12/2012. **(5 marks)**

- c) Using the following accounts, prepare a balance sheet for Bahati company Ltd for the year ended 31/12/2013.

Creditors	39,000
Accrued expenses	8,000
Accumulated depreciations	51,000
Additional paid in capital	36,000
Allowances for doubtful debts	2,000
Cash	23,000
Common stock (0.20€/each	45,000
Current debts	6,000
Debtors	40,000
Motorvehicle	86,000
Land	200,000
Furniture	150,000
Fixture	50,000
Stock	57,000
Longterm debt	210,000
Depreciation on motor vehicle	51,000
Received earnings	138,000
Notes payable	18,000

Required:

Prepare the balance sheet as the year ended 31/12/2013 and comment in the liquidity of the company. **(6 marks)**

- d) Define non financial performance measurement and explain any THREE types of NFPM that can be used to analyze the firm's performance. **(7 marks)**

END