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MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CBF 321: FINANCIAL REPORTING AND ANALYSIS

Date: JULY 2016	Duration: 2 Hours
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) The consolidated financial statements effectively show the performance of a group of companies as if it were a single entity. Many commentators on accounting have argued different industries and markets produces information that may conceal important data and has potential to confuse those who wish to analyse it.

Required

I Identify the main items of information that require disclosure under IAS 14 (segment reporting) **(2 marks)**

ii Bearing in mind the above comments, identify the benefits of segmented information **(4 marks)**

iii Identify the main problems associated with the provision of segmental information **(4 marks)**

b) The following information has been extracted from the consolidated financial statements of Kuya Ltd and its subsidiaries for the year ended 31st October 2013.

	Sh million
Sales revenue	900
Cost of sales	634
Distribution cost	87
Central administration	37
Amortization of goodwill during the year	20
Finance costs (lease sh 10 m debenture interest sh 12m)	22
Dividends	50
Goodwill on consolidation	60
Non-current assets owned	370
Non-current assets based	150
Current assets	160
Current liabilities	90
Finance lease obligation	200
10% debentures	120

The activities of Kuya relate to three operational segments, Engineering, chemical and supermarket chain.Information relating to each of the segments is as follows

	Engineering	Chemical	Supermarket
Sales revenue	Sh 420 million	Sh 340 million	Sh 200 million
Gross profit margin on eternal sales	20%	40%	25%
Owned non-current assets	Sh 150 million	Sh 120 milion	Sh 1 million
Production of leased assets	60%	40%	Nil
Current assets	Sh 70 million	Sh 60 million	Sh 30 million
Proposition of lease obligation	50%	50%	Nil

Additional information

1. The consolidated figures exclude inter-segment trading whereas the segmental figures include the result of inter-segment trading.
2. During the year ended 31 October 2013, the engineering division manufactured the steelwork for the superstructure of several new supermarkets. This work was involved at cost of (20 million) to the supermarket division. The other inter-segment sales (sh 40 million) were from the chemicals division to the engineering division at the normal profit margins. There were no group unrealized profits.
3. The finance cost comprise internet on finance lease and debentures interest. The management of Kuya Ltd considered the debenture interest to be common cost but not the interest on finance leases. This can be assumed to accrue in proportion to the value of the outstanding lease obligations.
4. The goodwill on consolidation and its amortization relate to subsidiary that has both engineering and chemicals operations. The management estimated that based on the relative profitability at the time of acquisition. The value of

goodwill should be allocated on the basis of 30% to the engineering operations and 70% to the chemical operations.

5. When preparing segment reports, Kuya Ltd uses its operating activities as the basis for its primary reporting format.

   Required

   Segment report for Kuya Ltd for the year ended 31 October 2013 in accordance with the requirements of IAS 14 (segment reporting) **(20 marks)**

Q2. a) List and explain FIVE users of business analysis and financial statement analysis **(5 marks)**

b) State and explain FIVE objectives of financial statements. **(5 marks)**

c) Define the following accounting concepts and for each explain their implication in the preparation of financial statements.

i Going entity concept **(5 marks)**

ii Materiality concept **(5 marks)**

Q3. The following is the Balance Sheet of Ms. Gupta for the year 2014 and 2015. Prepare the comparative Balance Sheet and study the financial position of the concern.

Balance Sheet as at 31st December

Libilities	2014	2015	Assets	2014	2015
Equity share capital	500,000	700,000	Land and building	270,000	170,000
Reserves and surplus	330,000	222,000	Plant and Machinery	400,000	600,000
Debentures	200,000	300,000	Furniture	20,00	25,000
Long term loan on mortgage	100,000	150,000	Other fixed assets	25,000	30,000
Bill payable	50,000	45,000	Cash in hand	20,000	25,000
Sundry creditors	100,000	120,000	Bill receivables	100,000	80,000
Other current liabilities	5,000	10,000	Sundry debtors	200,000	250,000
			Stock	250,000	350,000
			Prepaid expenses	_____	2,000
	1,285,000	1,547,000		1,285,000	1,547,000

Required

Comparative Balance Sheet of Ms. Gupta for the year ending December 2014 and 2015. **(20 marks)**

Q4. a) Explain FOUR limitations of ratio analysis **(4 marks)**

b) The following income statement relates to Kandi Limited

Kandi Ltd
Profit and Loss account for the year ended 31.12.2015

	Shs	Shs
Sales		850,000
Less cost of sales		
Opening stock	99,500	
Purchases	559,500	
	659,000	
Less closing stock	(149,000)	(510,000)
Gross profit		340,000
Less expenses		
Selling and distribution	30,000	
Depreciation	10,000	
Admin expenses	135,000	175,000
Earnings before interest and taxes		165,000
Less interest		(15,000)
Earnings before tax		150,000
Tax @ 50%		(75,000)
Less ordinary dividend		75,000
(0.75 per share)		(15,000)
Retained profit for the year		60,000

Kandu Ltd
Balance Sheet as at 31 December 2015

Non current assets	Shs		Shs
Land and Buildings	250,000	Issued share capital	
Plat and machinery	80,000	(2000 share of sh 10)	200,000
Current assets		Reserve	90,000
Inventory	149,000	Retained profits	60,000
Debtors 75,000		Longterm	100,000
Less provision (4,000)	71,000	Current liabilities	130,000
Cash	30,000		
	580,000		580,000

Additional Note
Calculate the following ratios
a) Liability ratios **(4 marks)**
b) Gearing ratios **(4 marks)**

c) Profitability ratios **(4 marks)**
d) Equity ratios **(4 marks)**

END