KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

BAE 803: FINANCIAL REPORTING AND INTERPRETATION

DATE: Tuesday, 9th May, 2017 TIME: 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS:

Answer **ALL** questions.

QUESTION ONE

The following information is provided Burton PLC for the year ended 31 March 2017

	$
Plant and machinery, at cost (see Note (c)	105,000
Bank interest receivable	3,000
Discounts allowed	7,000
Discounts received	6,000
Hire of motor vehicles: Sales and distribution	14,000
Hire of motor vehicles: Administrative	5,000
Licence fees receivable	13,000
General distribution expenses	26,000
General administrative expenses	19,000
Wages and salaries: Sales & Distribution	177,000
Administrative	98,000
Directors' remuneration	41,000
Motor expenses (see Note (e)	11,000
Ordinary dividend paid	80,000
Inventory 31 March 2016	208,000
Revenue	1,450,000
Purchases	700,000
Returns outwards	22,000
Returns inwards	29,000
Retained profits as at 31 March 2016	88,000

Notes:

(a) Inventory at 31 March 2017 $ 230,000.
(b) Accrue auditor's remuneration $8,000.
(c) Of the plant and machinery. $70,000 is distributive in nature, while $35,000 is for administration.
(d) Depreciate plant and machinery 25% on cost.
(e) Of the motor expenses, 4/5 are for sales and distribution and 1/5 for administration.
(f) Corporation tax on ordinary profits is estimated at $143,000.

Required

Prepare (i) a detailed income statement for the year ending 31 March 2017 for internal use, and (ii) an income statement for publication: (10marks)

Describe the functions of budgets in an organization (5marks)

QUESTION TWO

The following information has been extracted from the books of Success ltd for the year to 31 December 2016

Statement of financial position as 31 December 2016

	2016	2015
	$000	$000
Non current assets at cost	1300	1000
Less Accumulated depreciation	600	400
	700	600
Investments at cost	100	400
	800	1000
Current assets		
Inventory	1400	800
Accounts receivable	3100	2700
Cash at bank	-	200

	4500	3700
Total assets	5300	4700
Current liabilities		
Bank overdraft	120	–
Accounts payable	1840	1600
Taxation	380	460
Total liabilities	2340	2060
Net assets	2960	2640

Equity		
Called up share capital ($1 ordinary shares)	1500	1000
Share premium	400	300
Retained profits	1060	1340
	2960	2640

Additional information

1. During the year to 31 December2016, some non- current assets originally costing $ 50,000 had been sold for $ 40,000 in cash. The accumulated depreciation on these non-current assets at 31 December 2015 amounted to $ 20,000. Similarly, some of the investments originally costing $300,000 had been sold for cash at their book value.
2. The taxation balances disclosed in the above statement of financial position represent the actual amounts agreed with the revenue and the customs. All taxes were paid on their due dates. Advance corporation tax may be ignored.
3. A dividend of $260,000 was paid during the year to 31 December 2016.
4. During the year to 31 December 2016, the company made a 1-for- 2 rights issue of 500 ordinary $ 1 shares at $ 2.40 per share

Required

Prepare Success Ltd's Statement of cash flows for the year to 31 December 2016 in accordance with the requirements of IAS 7 using the indirect method (15marks)

QUESTION THREE

Venus and Mars each carry business as wholesalers of the same product. Their respective financial statements for the year ended 31 December 2016 are as follows

Income statements

	Venus		Mars	
	$	$	$	$
Sales		288,000		280,000
Cost of sales				
Opening inventory	56,000		6,400	
Purchases	248,000		243,200	
	304,000		249,600	
Closing inventory	64,000	240,000	9,600	240,000
Gross profit		48,000		40,000
Selling expenses	14,400		5,600	
Administrative expenses	16,320	30,720	19,000	24,600
Net profit		17,280		15,400

Statement of financial position at 31 December 2016

	Venus	Mars
	$	$
Freehold Property	40,000	28,000

Fixtures and fittings	43,500	27,680
Motor vehicles	24,000	12,000
	107,500	67,680
Inventories	64,000	9600
Accounts receivable	57,600	22,400
Bank	17,900	22,720
	247,000	122,400
Capital	216,000	61,600
Accounts payable	31,000	60,800
	247,000	122,400

Additional information

a) All sales are on credit

b) The amounts of debtors and creditors have not changed significantly over the year

c) All non- current assets are at written down value

Required

Compare the profitability, liquidity and efficiency of the two companies by

a) Calculating suitable ratios for each business (10 marks)

b) Commenting on the significance of the results of your calculation (5marks)

QUESTION THREE

The directors of Burley Ltd are considering two mutually exclusive investment projects in respect of which the following information is provided:

	Project A £	Project B £
Initial Capital Outlay	80,000	100,000
Net Cash inflows, year 1	40,000	20,000
Year 2	60,000	30,000

Year 3	10,000	50,000
Year 4	5,000	50,000
Year 5	5,000	50,000

The initial outlay will occur immediately and you may assume that the net cash inflows will arise at the end of each year.
Burley's estimated cost of capital over the five year period is 12%.

Required:
Numerical assessments of the two projects based on the following methods of investment project appraisal:

(i) Payback (5marks)
(ii) Net present value (NPV) (5 Marks)
(iii) Internal rate of Return(IRR) (5marks)

Note:
Ignore taxation and use the financial tables provided