KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018
FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF

BAE 803: FINANCIAL REPORTING AND INTERPRETATION

DATE: Friday, 9th February, 2018 TIME: 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS: Answer **ALL** the questions.

QUESTION ONE

The following information has been extracted from the books of Riverside 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

a) Prepare Riverside Ltd's Statement of cash flows for the year to 31 December 2016 in accordance with the requirements of 1AS 7 using the indirect method (13 marks)

b) Describe the usefulness of cash flow statement to the management (2marks)

QUESTION TWO

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

Discuss the role of budgeting in modern corporate organization (5marks)

The following balances remained in the books of AK Ltd on 31 March 2016, after the income statement had been drawn up.

	Dr	Cr
	£000s	£000s
Ordinary Share Capital:£1 shares		500
Preference share capital: 50p shares		200
Calls account (ordinary shares)	1	
Development Costs	64	
Goodwill	208	
Land and buildings – at cost	500	
Plant and Machinery-at cost	150	

Provision for depreciation: Building		40
Provision for depreciation: Plant & Machinery		60
Shares in undertakings in which the company has a participating interest	140	
Inventory: Raw materials	12	
Inventory: Finished goods	72	
Accounts receivable: Trade	48	
Amounts owed by associate entities	10	
Prepayments	2	
Loan notes (See Note 1)		100
Bank overdraft (repayable on demand)		31
Accounts payable: Trade (payable within one year)		34
Bills payable (See Note 2)		8
Share premium		100
Capital redemption reserve		20
General Reserve		40
Retained profits		86
	1,219	1,219

Notes:

1. Of the loan notes, £40,000 is repayable in five months' time, while the other £60,000 is repayable in four years' time.
2. Of the bills payable, £6,000 is in respect of a bill to be paid in eight months' time and £2,000 for a bill payable in 14 months' time.
3. The depreciation charged for the year was: Buildings £10,000, Plant and Machinery £15,000.

Required

Draft the statement of financial position as at 31 March 2016 in accordance with the relevant accounting standards. (10 marks)

QUESTION FOUR

The Production Manager in a Multi-purpose workshop is concerned with the problems of replacing one of the semi-automatic machines in the machine shop.

The machine is used in the production of small nuts and bolts of varying sizes. There are three similar types of machines on the market, Alpha, Sigma and Omega. The accountant prepared the forecast cash flow as follows.

Machine Type	Alpha	Sigma	Omega
Initial cash outlay	200,000	200,000	200,000
Cash inflow End of year 1	30,000	50,000	60,000
2	40,000	60,000	60,000
3	70,000	60,000	60,000
4	80,000	40,000	40,000
5	85,000	40,000	10,000

The cost of capital is estimated as 10%. The machines have no scrap value after their useful lives.

Required:

Compare the various alternatives under each of the following methods;-

a. Pay- back period (5 marks)
b. Net present value (10 marks)

*INVOLVEMENT IN ANY **EXAMINATION IRREGULARITY** SHALL LEAD TO **DISCONTINUATION***