



*(University of Choice)*

**MASINDEMULIROUNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(Kisumu Campus)**

**UNIVERSITY EXAMINATION**

**2015/2016 ACADEMIC YEAR  
FIRST YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE  
OF  
MASTERS IN BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 803**

**COURSE TITLE: FINANCIAL REPORTING AND CONTROL**

**DATE: June 2016**

**TIME: 3 Hours**

**INSTRUCTIONS TO CANDIDATES**

- Answer Question ONE and any other THREE questions

## Section A

### Question One

The following trial balance was extracted from the books of Heshima Limited as at 31st December 2015:

	Shs'000'	Shs'000'
Ordinary shares of Sh10 each		90,000
10% Preference shares of sh10 each		15,000
8% Debentures		15,000
Share premium		12,000
Trade Receivables / Trade payables	49,500	22,200
Purchases / Sales	633,000	720,000
Discounts	750	1,950
Buildings at cost	75,000	
Provision for depreciation – Buildings		7,500
Fixtures and Fittings at cost	96,000	
Provision for depreciation – Fixtures and Fittings		38,400
Inventory – 1 <sup>st</sup> January 2015	63,000	
Return outwards		12,000
Selling and distribution expense	25,050	
Salaries and wages	19,500	
Administrative expenses	8,400	
Bad debts written off	600	
Provision for doubtful debts		2,700
Cash in hand	24,000	
Bank overdraft		3,750
Retained earnings		54,300
	<b>994,800</b>	<b>994,800</b>

#### **Additional information:**

1. Trade receivables include Sh3, 000,000 owed by OT Ltd which has been declared insolvent. It has been decided to write off the debt.
2. Provision for doubtful debts is to be adjusted to 5% of trade receivables.
3. Inventory at 31<sup>st</sup> December 2015 was valued at Sh108, 000,000.
4. Selling and distribution expenses prepaid at 31<sup>st</sup> December 2015 was Sh600, 000.
5. Administrative expenses accrued at 31<sup>st</sup> December 2015 was Sh1, 050,000.
6. The company has not yet paid interest on the debentures for the year.
7. Depreciation is to be provided on Buildings – 2% per annum on cost and Fixtures and Fittings – 10% per annum on cost.
8. The company propose to pay preference dividend and 10 % ordinary dividend for the year.

**Required:**

- (a) Income statement for the year ended 31<sup>st</sup> December 2015 (12 marks)  
 (b) Statement of financial position as at 31<sup>st</sup> December 2015 (8 marks)

**Question Two**

The following are extracts from the final accounts of Callabar Ltd over the last two years ended 31<sup>st</sup> December:

**Income Statements**

	2014	2015
	Shs	Shs
Sales (all on credit)	1,350,000	1,668,000
Purchases (all on credit)	432,000	570,000
Cost of sales	420,000	544,000
Gross Profit	930,000	1,124,000
Net Profit before tax	260,000	400,000

**Statement of Financial Positions**

	2014	2015
	Shs	Shs
<b>Assets</b>		
<b>Non – Current Assets</b>	<b>1,240,000</b>	<b>1,600,000</b>
<b>Current Assets</b>		
Inventory	22,000	48,000
Trade Receivables	190,000	212,000
	<b>212,000</b>	<b>260,000</b>
<b>Total Assets</b>	<b>1,452,000</b>	<b>1,860,000</b>
<b>Shareholders' Equity</b>		
Ordinary Share Capital	600,000	600,000
Retained Profits	448,000	748,000
	<b>1,048,000</b>	<b>1,348,000</b>
<b>Non – Current Liabilities</b>		
10 % Debentures	<b>200,000</b>	<b>180,000</b>
<b>Current Liabilities</b>		
Trade Payables	106,000	138,000
Taxation	20,000	40,000
Bank Overdraft	78,000	154,000
	<b>204,000</b>	<b>332,000</b>

<b>Capital &amp; Liabilities</b>	<b>1,452,000</b>	<b>1,860,000</b>
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**Additional Information**

Inventory and trade receivables balance as at 1<sup>st</sup> January 2014 were Shs 18,000 and Shs 196,000 respectively

**Required:**

- (a) Calculate the following ratios for each year:
  - (i) Two profitability ratios (4 marks)
  - (ii) Two liquidity ratios (4 marks)
  - (iii) Two efficiency ratios (4 marks)
  - (iv) Two gearing ratios (4 marks)
- (b) Comment on the financial performance of the company over the two years (4 marks)

**Question Three**

Using Question 2 above,

Prepare the cash flows statement of Callabar Limited for the year ended 31<sup>st</sup> December 2015 using either the direct or indirect method. (20 marks)

**NB:** Ignore depreciation of non-current assets.

**Section B**

**Question Four**

Briefly highlight five major users of financial statements and explain their information needs.

(10 marks)

**Question Five**

Explain the role of accountants in ensuring that organizations have sound and adequate internal control system in place.

(10 marks)