



*(University of Choice)*

**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)**

**MAIN & BUNGOMA CAMPUS,**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**MAIN EXAMINATIONS**

**FOR THE DEGREE  
OF  
MASTER OF BUSINESS ADMINISTRATION**

**COURSE CODE: MBA 803**

**COURSE TITLE: FINANCIAL REPORTING AND CONTROL**

**DATE: Monday 25<sup>th</sup> July 2022**

**TIME: 2-5PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and any OTHER THREE

TIME: 3 Hours

MMUST observes ZERO tolerance to examination cheating

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**QUESTION ONE (15 MARKS)**

Japolo Insurance Agency was organized on September 1, 2021. Assume that the accounts are closed and financial statements prepared each month. The company occupies rented office space but owns office equipment estimated to have a useful life of 5 years from date of acquisition, September 1. The trial balance for Japolo Insurance Agency at November 30 is shown below:

JAPOLO INSURANCE AGENCY TRIAL BALANCE NOVEMBER 30, 2021		
	KSHS	KSHS
Cash	6565	
Accounts receivable	17050	
Office supplies	500	
Office equipment	18000	
Accumulated depreciation: Office equipment		600
Accounts payable		1260
Joe, Japolo, Capital		35000
Joe, Japolo, Drawing	2500	
Commission earned		15555
Advertisisng expense	1400	
Salaries expense	2600	
Rent expense	3800	
	52415	52415

Japolo estimates that only about Kshs 300 worth of office supplies remain on hand at November 30.

Required:

- a) Prepare adjusting entries at November 30 to reflect the office supplies used in November and Depreciation expense for the month. (2 marks)
- b) Prepare adjusted trial balance at November 30, 2021 (3 marks)
- c) Prepare an income statement and statement of owner's equity for the month, and a balance sheet in report form at November 30, 2021 (10 marks)

**QUESTION TWO (15 MARKS)**

The following are financial statements of Wodanga Ltd Balance Sheet As at December 31,

	2021	2020
	Kshs	Kshs
<b>Assets</b>		
Cash	95,800	25,000
Accounts receivable (net)	42,000	52,000
Inventory	86,800	96,800
Prepaid expenses	6,400	5,200
Furniture	110,000	120,000
Accumulated Depreciation-furniture	(18,000)	(10,000)
Total assets	<u>323,000</u>	<u>289,000</u>
<b>Liabilities and Equity</b>		
Accounts payable	16,000	22,000
Wages payable	10,000	6,000
Income taxes payable	2,400	3,600
Notes payable (long-term)	30,000	70,000
Ordinary shares, kshs 5 par value	230,000	180,000
Retained earnings	<u>34,600</u>	<u>7,400</u>

323,000    289,000

**Wodanga Ltd Income statement For the period ended December 31, 2021**

	Kshs	Kshs
Sales		468,000
Cost of goods sold		312,000
Gross profit		<b>156,000</b>
Operating expenses:		
Depreciation expenses	38,600	
Other expenses	57,000	
		<u>95,600</u>
Income before taxes		60,400
Income taxes		<u>24,600</u>
Net income		<u><b>35,800</b></u>

All sales and purchases are on credit and the other expenses amounting to Ksh 57,000 are cash expenses. Furniture was purchased during the year for Kshs 44,000

**Required**

- a) Statement of cash flows using the indirect method (8 marks)
- b) Statement of cash flows using the direct method (7 marks)

**QUESTION THREE (15 MARKS)**

The following data relate to a recent annual report of Wazalendo Stores Ltd (in Kshs millions)

	2021 Kshs	2020 Kshs
Balance sheet data:		
Quick assets	2539	2611
Current assets	4654	4574
Current liabilities	1975	1522
Average stockholders equity	2981	2624
Average total assets	8637	8462
Income statement data:		
Net sales	10469	9700
Gross profit	2778	2361
Operating Income	1267	1112
Net income	603	515

Required:

- a) Compute the following for 2020 and 2021 (Round to one decimal place)
  - i) Quick ratio (1 marks)
  - ii) Current ratio (1 marks)
  - iii) Working capital (in millions) (1 marks)
- b) Comment upon the trends in the liquidity measures and state whether the company appears solvent at the end of 2021 (3 marks)
- c) Compute the percentage change for 2021 in amounts of net sales and net income. (Round to one-tenth of one percent) (2 marks)
- d) Compute the following for 2020 and 2021. (Round to one-tenth of one percent)

- i) Gross profit ratio (1 marks)
- ii) Net income as a percentage of net sales (1 marks)
- iii) Return on average assets (1 marks)
- iv) Return on average stockholders' equity (1 marks)
- e) Comment upon the trends in the profitability measures computed in part c and d. (3 marks)

**QUESTION FOUR (15 MARKS)**

“Effective internal control, internal audit, audit committee and corporate governance are all inter-related”.

Required:

Discuss this statement with reference to:

- (a) How internal audit should contribute to the effectiveness of internal control; (3 marks)
- (b) How an audit committee should contribute to the effectiveness of internal audit; (6 marks)
- (c) The role of an audit committee in promoting good corporate governance. (6 marks)

**QUESTION FIVE (15 MARKS)**

- a) Scholars have considered the term “Accounting Theory” is an elusive phenomenon, with some asserting that it encompasses either purely speculative interpretations or empirical explanations that usually do not indicate the level of theory which is implied to guide meaningful research.

**Required:**

Propose a definition of “Accounting Theory” that would form a framework to guide scholarly inquiry and development of accounting practice. (3 marks)

- b) Outline the main elements of the following approaches to accounting theory
  - i) Deductive Accounting Theory (4 marks)
  - ii) Positive Accounting Theory (4 marks)
  - iii) Normative Accounting Theory (4 marks)