



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

FINAL EXAMINATION

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

COURSE CODE: FINANCIAL REPORTING AND CONTROL

COURSE TITLE: MBA 803

DATE: Wednesday 7th December 2022 TIME: 2.00PM-5.00PM

INSTRUCTIONS TO CANDIDATES

ATTEMPT ALL QUESTIONS

TIME: 3 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE (25 MARKS)

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. (Framework for presentation of financial statements issued by the international accounting standards board i.e. IASB)

Required

- a) State five potential users of company published financial statements and briefly explain for each the likely information needs from those statements. (10 marks)
- b) Briefly discuss whether you think company published financial statements meet the objective stated above.

NB: Include in your answer two ways in which you think the quality of financial information disclosed in financial statements could be improved. (10 marks)

- c) One of the requirements of the Framework is that financial statements should be free from material error. Suggest three safeguards which may exist, inside or outside a company to ensure that the financial statements are in fact free from material errors. (5marks)

QUESTION TWO (25 MARKS)

- a) Discuss the possible causes of the differences between the net change in cash and cash equivalent for a given period and the operating profits (losses) generated (incurred) in the same accounting period. (5 marks)
- b) Briefly discuss how each of the following transactions and events ultimately affect the amount of cash and cash equivalent of an entity:
 - (i) An increase in the level of inventories,
 - (ii) A right issue of ordinary shares,
 - (iii) A bonus issue of ordinary shares,
 - (iv) Writing off part of the value of some inventories,
 - (v) The disposal of a large number of the business' share by a major shareholder, and
 - (vi) Depreciating a non-current asset. (2 marks each=12 Marks)
- c) Highlight adjusting entries in financial accounts and explain the purpose they serve. (8 marks).

QUESTION THREE (25 MARKS)

- a) It has frequently been stated in many a Chairman's report that employees are the most important assets of any enterprise. The financial records and by extension the general purpose financial statements, however, fail to recognize employees as assets. It has been argued "while employees may meet the definition of an asset, they may not meet the asset recognition criteria." Kindly explain this statement. (5 marks)
- b) Presented below are a number of operational guidelines and practices that have been developed by the accounting profession over time:
 1. All important aspects of bond indentures are presented in the financial statements,

2. A company charges its sales commission costs to expense when the sales are made,
3. Reporting must be done a defined time intervals,
4. An allowance for uncollectable debts is established,
5. All payments out of petty cash are charged to miscellaneous expenses,
6. Price-level changes are not recognized in the accounting records,
7. Intangibles are capitalized and amortized over periods benefited,
8. Repair tools are expensed when purchased,
9. Each enterprise is kept as a unit distinct from its owners, and
10. Revenue is recognized at point of sale.

Required:

State the assumption, principle or constraint that most appropriately justifies each of these procedures and practices. Briefly explain the applicability of the chosen rule/concept to the situation. Do not use components of qualitative characteristics of accounting information in your explanations. (20 marks)

QUESTION FOUR (25 MARKS)

- a) Corporate social responsibility is increasingly seen as essential to the long term survival of companies. What is corporate social responsibility and discuss the benefits to organisations which produce corporate social reports. (10 marks)
- b) The accounting profession has frequently been criticised for its failure to develop a conceptual framework

Required:

What is meant by the term “conceptual framework” and discuss the advantages that might arise from using it. (10 marks)

- c) What do you consider would be the difficulties in trying to develop a conceptual framework? (5 marks)