



Riara School of Business

Nurturing business innovators

JANUARY – APRIL 2023, TRIMESTER

EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

(ACCOUNTING SPECILISATION)

RAC 303: CORPORATE FINANCIAL REPORTING

DATE: APRIL 2023

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text books/reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

1. Write your **ADMISSION NUMBER** clearly on the cover of the answer booklet(s).
2. Answer Question **ONE** and **ANY OTHER TWO** questions.
3. Questions in all sections should be answered in answer booklet(s).
4. Marks allocated to each question are shown at the end of the question.
5. **PLEASE** start the answer to **EACH** question on a **NEW PAGE**.
6. Indicate the number of the questions answered on the cover of the answer booklet(s) in the order you answered them.
7. Write your answers in paragraph form unless stated otherwise.
8. Keep your phone(s) **SWITCHED OFF** at the front of the examination room.
9. Keep **ALL** bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
10. You are only allowed to leave the examination room 30 minutes to the end of the Examination.

QUESTION ONE (COMPULSORY) – (30 MARKS)

- a. AZ Co is a quoted manufacturing company. Its finished products are stored in a nearby warehouse until ordered by customers. AZ Co has performed very well in the past, but has been in financial difficulties in recent months and has been re-organizing the business to improve performance. The trial balance for AZ Co at 31 December 2022 was as follows:

	Kshs '000'	Kshs '000'
Sales		124,900
Cost of goods manufactured in the year (excluding depreciation)	94,000	
Distribution costs	9,060	
Administrative costs	16,020	
Restructuring costs	121	
Interest received		1,200
Debenture interest paid	639	
Plant and equipment	30,315	
Vehicles	3,720	
Accumulated depreciation at 31 st December 2021		
Plant and equipment		6,060
Vehicles		1,670
Investment properties at market value	24,000	
Inventories as at 31 December 2021	4,852	
Trade receivables	9,330	
Bank and cash	1,190	
Ordinary shares of Kshs 10 fully paid		20,000
6% redeemable preference shares		1,000
Share premium		430
Revaluation surplus		3,125
Retained earnings at 31 December 2021		9,552
Ordinary dividends paid	1,000	
Preference dividends paid	60	
7% debenture stock		18,250
Trade payables		8,120
	194,307	194,307

Additional information provided:

- (i) The property, plant and equipment are being depreciated as follows:
 - a) Plant and equipment 20% per annum straight line
 - b) Vehicles 25% per annum reducing balance. Depreciation of plant and equipment is considered to be part of cost of sales while vehicle depreciation should be included under distribution costs.
- (ii) Income tax for the year to 31 December 2022 is estimated at Kshs. 161,000.
- (iii) The closing inventories at 31 December 2022 were Kshs 5,180,000. Due to the incorrect set up of a production machine, several batches which had cost Kshs 50,000 to manufacture had the wrong packaging. Re-packaging will cost an additional Kshs. 20,000 after which they will be sold at Kshs 55,000.
- (iv) The preference shares will be redeemed at their par value (Kshs 1,000,000) in 2027. Preference dividends are paid on 31 December each year.
- (v) The 7% debentures are 10-year loans due for repayment by 31 December 2025. Interest on these debentures needs to be accrued for the six months to 31 December 2022.
- (vi) The restructuring costs in the trial balance represent the cost of a major restructuring of the company to improve competitiveness and future profitability.
- (vii) No fair value adjustments were necessary to the investment properties during the period.

Required:

Prepare the income statement for AZ Co for the year to 31 December 2022 and a balance sheet at that date. **(14 Marks)**

- b. Discuss **four (4)** qualitative characteristics of financial information **(8 marks)**
- c. Evaluate the following terms as used in the financial statements
 - (i) Going concern
 - (ii) Accruals concept
 - (iii) Matching concept

(iv) Consistency

(8 marks)

QUESTION TWO

Libra Limited Statement of Financial position as at 31 December 2022

	2020	2021	2022
	Kshs	Kshs	Kshs
	000	000	000
<i>Fixed Assets</i>			
Plant and equipment	<u>13,200</u>	<u>16,110</u>	<u>16,410</u>
<i>Current assets</i>			
Stocks	2,190	2,280	2,490
Trade debtors	2,040	2,100	2,430
Short term investments	4,200	1,800	1,290
Cash at bank and in hand	<u>1,920</u>	<u>1,650</u>	<u>2,160</u>
	<u>10,350</u>	<u>7,830</u>	<u>8,370</u>
<i>Creditors: falling due within one year</i>			
Short term loans	(2,340)	(2,580)	(2,550)
Trade creditors	(2,760)	(2,610)	(2,670)
Taxation	(360)	(420)	(530)
	<u>(5,460)</u>	<u>(5,610)</u>	<u>(5,750)</u>
<i>Net current assets</i>	4,890	2,220	2,620
<i>Total assets less current liabilities</i>	<u>18,090</u>	<u>18,330</u>	<u>19,030</u>
<i>Capital and reserves</i>			
Called up share capital	4,500	4,500	4,500
Share premium account	9,000	9,000	9,000
Other reserves	3,280	4,060	4,570
Profit and loss account	<u>1,310</u>	<u>770</u>	<u>960</u>
	<u>18,090</u>	<u>18,330</u>	<u>19,030</u>
Other information:			
Profit before tax	960	1,020	1,590
Tax on annual profit	360	420	530
Tax paid during the year	300	360	420
Annual depreciation	645	780	900
Dividends declared and paid	360	360	360

In 2021, equipment was sold at a loss of Kshs. 210,000. New plant in 2021 cost Kshs. 5,100,000

New plant in 2022 cost Kshs. 1,200,000. Profit transferred to other reserves in 2021 and 2022 amounted to Kshs. 780 and 510 respectively

Required:

- a. Prepare a Statement of cash flows for Libra Limited for the year ended 31 December 2022 using the indirect method **(14 marks)**
- b. Name the three components of the statement of cash flows and briefly explain the items under each component **6 marks)**

QUESTION THREE

- a. There are a number of stakeholders in an entity, each stakeholder has differing needs. What are the following stakeholders looking for in an analysis of an entity's financial statements?
- (i) Shareholders
 - (ii) Potential investors
 - (iii) Bank and other capital providers
 - (v) Management **(8 Marks)**
- b. Below are the summarized financial statements for the year to 31 March 2021 and 2022 for Baraka Ltd, a company that manufactures bottles for many different drinks companies.

Baraka Ltd Statement of Income and Expenditure for the year ended 31 March 2022

	2022		2021	
	Kshs	Kshs	Kshs	Kshs
Revenue		300,000		120,000
Manufacturing	261,000		83,000	
Depreciation	<u>9,000</u>		<u>7,000</u>	
Cost of sales		<u>270,000</u>		<u>90,000</u>
Gross profit		30,000		30,000
Other expenses		<u>28,000</u>		<u>10,000</u>
Profit before interest and tax		2,000		20,000
Finance costs		<u>10,000</u>		<u>2,000</u>
Profit/loss before tax		(8,000)		18,000
Income tax		<u>(4,000)</u>		<u>(6,000)</u>
Profit/loss for the period		(12,000)		12,000
Dividends paid		8,000		8,000

Baraka Ltd Statement of financial position as at 31 March 2022

	2022	2021
	Kshs	Kshs
<i>Non- current assets</i>		
Land and buildings	5,000	5,000
Plant and equipment	<u>58,000</u>	<u>38,000</u>
	63,000	43,000
<i>Current assets</i>		
Inventories	18,000	12,000
Receivables	94,000	25,000
Deferred expenses	6,000	-
Bank	=	<u>8,000</u>
	<u>118,000</u>	<u>43,000</u>
	<u>181,000</u>	<u>88,000</u>
<i>Current liabilities</i>		
Trade payables	80,000	15,000
Other payables	12,000	10,000
Bank overdraft	<u>34,000</u>	=
	126,000	25,000
<i>Non-current liabilities</i>		
Finance lease	32,000	19,000
<i>Equity</i>		
Ordinary shares	25,000	25,000
Capital reserves	10,000	11,000
Retained earnings	<u>(12,000)</u>	<u>8,000</u>
	<u>23,000</u>	<u>44,000</u>
	<u>181,000</u>	<u>88,000</u>

Required:

Evaluate and comment on the performance of Baraka Ltd through calculation of the following ratios

- (i) 2 profitability ratios
- (ii) 2 liquidity and working capital ratios
- (iii) 2 solvency ratios

(12 marks)

QUESTION FOUR

- a) Highlight the **FIVE** complete set of financial statements **(5 Marks)**
- b) IAS 18 provides 5 conditions that need to be met before revenue from the sale of goods can be recognized. Highlight those conditions. **(5 Marks)**
- c) According to IAS 16, a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset (to the lessee). Title may or may not eventually be transferred. Highlight the 5 situations which would normally lead to a lease being classified as a finance lease. **(10 Marks)**