



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**SPECIAL EXAM**  
**BNK 3201: BANK REPORTING AND ANALYSIS**

**DATE:** Thurs, 25<sup>th</sup> April 2024

**TIME:** 15:00 – 17:00

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

**QUESTION ONE**

**a) Read the following statements and choose the correct answer (Q1-Q15).**

1. Which statement is true of the historical cost convention?
  - A. It records only past transactions.
  - B. It fails to take account of changing price levels over time.
  - C. It has been replaced in accounting records by a system of current cost accounting.
  - D. It values all assets at their cost to the business, without any adjustment for depreciation.
2. Under what basis are assets usually valued?
  - A. historical cost
  - B. deprival value
  - C. replacement cost
  - D. net realizable value
3. In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?
  - A. asset values and profit both overstated
  - B. asset values and profit both understated
  - C. asset values understated and profit overstated
  - D. asset values overstated, and profit understated
4. Which of the following statements is correct?
  - A. Positive accounting theory is not based on actual accounting practice.
  - B. Normative accounting theory attempts to predict actual accounting practice.

C. The use of a conceptual framework is an example of positive accounting theory.  
D. The development of alternatives to historic cost is an example of normative accounting theory.

5. Consider the following statements:

I Specific price inflation is based on the average rate of inflation.

II General price inflation measures price changes for a particular group of assets.

Which statements are correct?

- A. I only
- B. II only
- C. both I and II
- D. neither I nor II

6. What does the following statement describe?

*'the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital*

- A. fair value
- B. historical cost
- C. capital maintenance
- D. current cost accounting

7. Which of the following statements about current purchasing power accounting (CPP) are correct?

I It measures profit as the increase in nominal money capital over the period.

II It measures profit as the difference between income and expenses after allowing for the effect of inflation.

III It measures profit as the difference between income and expenses after ensuring that physical capital has been maintained.

- A. II only
- B. III only

- C. I and II only
- D. I and III only

8. A conceptual framework is

- A. the proforma financial statements.
- B. a list of key terms used by the IASB.
- C. a theoretical expression of accounting standards.
- D. a statement of theoretical principles which form the frame of reference for financial reporting.

9. Which of the following is an advantage of a conceptual framework?

- A. A framework encourages standardized accounting practice.
- B. The framework does not simplify the preparation and implementation of standards.
- C. There are a variety of users, so not all will be satisfied with the content of the framework.
- D. There are a variety of accounting situations which mean flexibility in the accounting approach is

Needed

10. What is the name of the IASB's conceptual framework?

- A. Statement of Principles for Financial Reporting
- B. The Conceptual Framework for Financial Reporting
- C. The Conceptual Framework for the Disclosure of Financial Statements
- D. The Conceptual Framework for the Presentation of Financial Statements to Users

11. According to the *Conceptual Framework*, who are the most important users of general-purpose financial reports?

- A. investors and lenders
- B. investors and employees
- C. lenders and management
- D. investors and the government

12. Listed below are some comments on accounting concepts and useful financial information:

I Materiality means that only items having a physical existence may be recognized as assets.

II A faithful representation of financial information can never include amounts based on estimates.

III Financial information prepared using accrual accounting provides a better basis for assessing an entity's performance than information based only on cash flows.

Which, if any, of these comments is correct, according to the IASB's *Conceptual Framework for Financial Reporting*?

- A. I only
- B. II only
- C. III only
- D. none of the above

13. With which accounting body has the IASB carried out a joint project to develop several common accounting standards?

- A. the OECD
- B. the Standards Advisory Council
- C. the Financial Accounting Standards Board
- D. the Australian Accounting Standards Board

14. Under what basis are assets usually valued?

- A. historical cost
- B. deprival value
- C. replacement cost
- D. net realizable value

15. In times of rising prices, what effect does the use of the historical cost concept have on a

company's asset values and profit?

- A. asset values and profit both overstated
- B. asset values and profit both understated
- C. asset values understated and profit overstated
- D. asset values overstated, and profit understated.

**(25 marks)**

b) Classify the following metric of Integrated Reporting under suitable capital (The six capital of Integrated Reporting).

- I. Return on equity
- II. Cash from operating activities
- III. Mining infrastructure
- IV. Investments in Research and Development
- V. Skilled and experienced employees
- VI. Employee injury rates
- VII. Employee turnover rate
- VIII. Multiple directorships
- IX. Water resources used and
- X. Co2 emission per package delivered

**(Total 5 marks)**

**(Total marks 30)**

## Question 2

Zest limited buys and sells various electronic equipment for home and business use. The following trial balance is applicable as at 31 December 2023:

<b>Zest Limited</b>		
<b>Trial Balance as at 31 December 2023</b>	Debit	Credit
	\$m	\$m
Land at valuation	130.00	
Buildings at cost	250.00	
Accumulated Depreciation for buildings		25.00
Furniture and Fittings at cost	90.00	
Accumulated Depreciation for Furniture and fittings		38.00
Office Equipment at cost	30.00	
Accumulated Depreciation for Office Equipment		8.00
Motor Vehicles	70.00	
Accumulated Depreciation for motor vehicles		34.00
Software License at cost	50.00	
Accumulated amortization for Software		30.00
Trading License(5-year)	20.00	
Accumulated Amortization for Trade License		4.00
Financial assets held for the long-term	22.00	
Inventory as at 1 January 2023	40.00	
Trade Receivables	57.00	
Expected Credit Loss		6.00
Financial Assets held for the Short term	4.00	
Bank	64.00	
Cash	2.00	
Trade Payables		54.00
10% Loan from ABC Bank (Payable in 2029)		50.00
5% Loan from EC bank (Paid annually at \$20m)		80.00
Ordinary Share Capital (Shares \$10)		250.00
Share Premium		109.00
Land revaluation Reserve		10.00
Financial Assets Revaluation Reserve		4.00
Retained Profits as at 1 January 2023		113.00
Purchases	140.00	
Discounts received		1.00
Sales		245.00
Administration Expense	60.00	
Selling and Distribution Costs	18.00	
Finance Cost	10.00	
Tax Paid	4.00	
Dividend Paid	5.00	
Investment Income		5.00
	1,066.00	1,066.00

**Relevant Notes:**

1. The inventory at the end of the year is \$35 million
2. All the depreciation for the year has been provided
3. The Income tax expense for the year is \$5 million
4. Administration expense unpaid is \$0.15 million, while selling and distribution expense prepaid amounts to \$0.05 million.

**(a) Prepare:**

- (i) The statement of Profit or Loss for the year ended 31 December 2023 **(7 Marks)**
  - (ii) The statement of financial position as at 31 December 2023 **(7 Marks)**
- (b) The lack of ethical and professional conduct by accounting and finance professionals, with the senior management has led to many financial reporting scandals (preparation of fraudulent financial statements and creative accounting) and the collapse of companies.

**Required:**

- (i) Highlight **THREE** factors that may motivate a company to prepare fraudulent financial statements and practice creative accounting **(2 Marks)**
- (ii) Recommend **THREE** mechanisms that various stakeholders can utilize to minimize fraudulent financial reporting and creative accounting **(2 Marks)**
- (iii) Highlight **THREE** aspects of ethical and professional conduct that accounting and finance professionals (and by extension senior management) of a company should have to deter fraudulent financial reporting and creative accounting **(2 Marks)**

**QUESTION THREE**

Ratesize manufacturing Ltd furnishes the following profit and Loss account for the year ended March 31, 2023:

	Notes	Sh "000"
Sales		1,780
Other income		<u>110</u>
		1890
Expenditure:		
Production and operational expenses	(a)	1,282
Administrative expenses ( Factory)	(b)	66
Interest	(c)	58
Depreciation		<u>34</u>
		1440
Profit before taxes		450
Taxes		(60)
Profit after tax		390
Transfer to general reserve		(90)
Dividend paid		(190)
Profit b/f		20
Profit c/f		130

Notes	“000”
(a) Production and operational expenses:	
Consumption of raw materials	704
Salaries, wages, gratuity (administration)	164
Taxes	196
Manufacturing expenses	218
(b) Administration expenses include salaries and commission to directors	18
Provision for doubtful debts	12.60
(c) Interest on loan from Bank for working capital	18
Interest on loan from Bank for fixed loan	36
Interest on debentures	4
(d) The charges for taxation include a transfer of Sh.6,000 to the credit of deferred tax account	
(e) Taxes include Excise Duty, which is equal to 10% of cost of bought in material.	

**Required**

Prepare a Gross Value Added Statement of Ratesize manufacturing Ltd for the year ended 31 March 2023 **(20 marks)**

**QUESTION FOUR**

ABC LTD historical financial statements are as follows:

**Statement of Financial Position as at 31<sup>st</sup> December**

	2022	2023
<b>Assets</b>	Kshs	Ksh
PPE	1,000,000	950,000
Inventory	500,000	550,000
Receivables	600,000	800,000
Bank and cash	<u>400,000</u>	<u>500,000</u>
<b>Total assets</b>	<b>2,500,000</b>	<b>2,800,000</b>
<b>Liabilities</b>		
Payables	500,000	400,000
Tax	100,000	200,000
Dividends	<u>200,000</u>	<u>250,000</u>
<b>Total liabilities</b>	<b>800,000</b>	<b>850,000</b>
<b>Capital</b>		
Ordinary shares	800,000	800,000
Loan	100,000	80,000
Revenue reserves	<u>800,000</u>	<u>1,070,000</u>
	<b>1,700,000</b>	<b>1,950,000</b>

**Income Statement for the year ended.  
31st December 2023**

Sales	2,120,000
Opening inventory	(500,000)
Purchases	(1,000,000)
Closing inventory	<u>550,000</u>
Gross profit	1,170,000
Expenses	(400,000)
Interest	<u>(50,000)</u>
Profit before tax	720,000
Tax	<u>(200,000)</u>
Profit after tax	520,000
Dividends	<u>(250,000)</u>
Retained earnings	270,000
Retained earnings b/f	<u>800,000</u>
Retained earnings c/f	<u>1,070,000</u>

**Additional information**

(a) Price indices were as follows:

At purchase of PPE	110
At the issue of shares	100
At 31 <sup>st</sup> December 2022	160
At 31 <sup>st</sup> October 2022	155
At 31 <sup>st</sup> December 2023	180
At 31 <sup>st</sup> October 2023	175
Average 2023	170
At 30 <sup>th</sup> June 2023	165

- (b) Inventory are acquired on average 2 months before year-end.  
(c) Half of the interest was paid on 30<sup>th</sup> June 2023; at the same time, part of the loan was paid.  
(d) The balance of the interest rate was paid at the year-end.

**Required**

Restate the accounts to the current purchasing power statement of financial position and income statement for the period ended 31 Dec 2023 **(20 marks)**

**QUESTION FIVE**

- a) The issue of the regulation of accounting became important, especially after the economic crash of the 1929. Discuss how the economic crash led to the regulation of accounting practice. **(6 marks)**
- b) Discuss **four** defects of the financial accounting information. **(8 marks)**

- c) Describe **three** criticisms that have been levelled against the IASB Conceptual framework for financial reporting. **(6 marks)**  
**(20 marks)**