



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**BNK 3201: BANK REPORTING AND ANALYSIS**  
**END OF SEMESTER EXAMINATION**

**DATE: 8<sup>th</sup> December 2023**

**Time: 13:00-15:00**

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

**(30 MARKS)**

- a) The current version of the Conceptual Framework that is used in the development and amendment of IFRS Accounting Standards was issued in 2018

**Required:**

Identify three main purposes of the conceptual framework.

**(3 Marks)**

- b) On 1 October 2022, Omega Bank Limited financed the construction of a new factory. Costs relating to the factory, incurred in the year ended 30 September 2023, are as follows:

	<b>Sh.000</b>
Purchase of the land	10,000
Costs of dismantling existing structures on the site	500
Purchase of materials to construct the factory	6,000
Employment costs	1,800
Production overheads directly related to the construction	1,200
Allocated general administrative overheads	600
Architects' and consultants' fees directly related to the construction	400
Costs of relocating staff who are to work at the new factory	300
Costs relating to the formal opening of the factory	200
Interest on loan to partly finance the construction of the factory	1,200

1. The factory was constructed in the eight months ended 31 May 2023. It was brought into use on 30 June 2023. The employment costs are for the nine months to 30 June 2023.
2. The production overheads were incurred in the eight months ended 31 May 2023. They included an abnormal cost of Sh.200,000, caused by the need to rectify damage resulting from a gas leak.
3. Omega received the loan of Sh.12m on 1 October 2022. The loan carries a rate of interest of 10% per annum.

4. The factory has an expected useful life of 20 years. At that time the factory will be demolished and the site returned to its original condition. This legal obligation arose on signing the contract to purchase the land. The expected costs of fulfilling this obligation are Sh.2m. An appropriate annual discount rate is 8%. The present value of Sh.1 in 20 years' time is 21.5 cents.

**Required:**

Compute the initial cost of the factory.

**(8 Marks)**

- c) Traditional financial reporting has evolved over time, with some requirements of IFRS Accounting Standards reflecting issues related to sustainability. Required: Discuss four reasons for the increasing demand for sustainability reporting. **(4 Marks)**
- d) The analysis and interpretations of financial statements may be misleading due to management manipulation in order to produce a desired effect.

**Required:**

Identify and explain five ways in which management may manipulate financial statements.

**(5 Marks)**

- e) Axiom Bank Ltd enters into an agreement to lease ATM Space. The terms of the lease are as follows:

- i. Primary period is for four years from 1 January 2022 with a rental of Sh.2, 000 p.a payable on 31 December each year.
- ii. The present value of the lease payments is Sh.5,710
- iii. The interest rate implicit in the lease is 15%.

**Required:**

- i. Initial recognition of the lease arrangement as at 1 January 2022 **(1 Mark)**
- ii. Determine the annual depreciation charge on the right of use asset **(1Mark)**
- iii. Show the lease amortization for the four- years lease term. **(4 Marks )**
- iv. Prepare extract of the income statement and statement of financial position for the four years. **(4 Marks)**

**QUESTION TWO**

**(15 MARKS)**

- a) The following information was obtained from Matric Limited
- As at 1st January 2022 the balance brought down on the current tax account and deferred tax (all liabilities) was Ksh. 20,000 and Ksh. 40,000 respectively. The current tax brought forward was finally settled at Ksh. 25,000. Current year's tax estimate is Ksh.150, 000 with instalment payment of Ksh. 120,000 having been made. The following items are considered for the purpose of computing the deferred tax balance as at 31<sup>st</sup> December 2022
- i. Property, plant and equipment had a carrying amount of Ksh. 200,000 and a tax base of Ksh. 100,000
  - ii. Intangible assets amounted to Ksh. 10,000 but has already been allowed as an expense in full for tax purpose.
  - iii. Inventory was valued at cost of Ksh. 120,000 had a Net Realizable Value of Ksh. 115,000. The actual cost is normally used for tax purpose.
  - iv. Receivables amounted to Ksh100,000 after making a general allowance of Ksh. 10,000. The general allowance is not allowed for tax purpose e) Corporation tax rate is given as 30%.

**Required:**

Compute;

i) income tax expense. (2 Marks)

ii) Current tax Liability (3 Marks)

iii) Deferred tax liability at 31 December 2022 (6 Marks)

b) State and explain whether the following should be accounted as subsidiary of A.

(1) A holds no shares in B; however, through an agreement with B's shareholders, A chooses 6 of the 10 Board members.

(2) A owns 45% of C's shares. No other individual shareholder owns more than 5%.

(3) A owns 55% of D's shares. Under a contract in place, A must make all decisions in agreement with E, who owns 45% of the shares.

(4) A controls F, a partnership, under an agreement. (4 Marks)

**QUESTION THREE****(15 MARKS)**

SBM traders has a head office in Nanyuki and an autonomous branch in Thika. The trial balances of head office and the branch as at 30 September 2023 were as follows:

	Head office		Thika branch	
	Sh.	Sh.	Sh.	Sh.
Buildings (at cost)	3,500,000			
Goods sent to branch		6,482,205		
Goods received from head office			6,387,330	
Accounts receivable	764,700		535,800	
Remittance from branch		7,548,750		
Remittances to head office			7,620,000	
Cash at bank	397,800		289,250	
Stock (at cost)	2,595,000			
Stock (at markup)			1,552,500	
Sales		13,000,000		9,202,200
Capital (1 October 2022)		6,040,925		
Bank overdraft				250,000
Furniture and fittings	779,500		230,500	
Purchases	13,626,600			
Rent and rates	395,400		197,250	
Salaries and wages	851,700		487,500	
Current accounts	8,931,555			8,836,680
General expenses	1,887,750		1,258,950	
Accounts payable		1,239,000		270,200
Drawings	783,375			
Provision for unrealised profits		202,500		
	<b>34,513,380</b>	<b>34,513,380</b>	<b>18,559,080</b>	<b>18,559,080</b>

**Additional Information:**

1. Depreciation on furniture and fittings is to be provided at the rate of 10% per annum using the reducing balance method.
2. A bonus of 10% is payable to the staff at the head office and the branch. The bonus is based on net profits after charging these bonuses.
3. Goods sent to the branch in August 2023 and which had an invoice value of Sh.94,875 were stolen in transit. The insurance company agreed to meet the claim to the extent of only 85% of the cost of the goods.

4. Goods were invoiced to the branch at 15% above cost. All sales were at a markup of 33 1/3% above the cost to head office.
5. No shortages of stock were reported at the head office or the branch.

**Required:**

Prepare in columnar form for the head office, Thika branch and the combined business. The income statements for the year ended 30 September 2023. **(15 Marks)**

**QUESTION FOUR (15 MARKS)**

<b>Statement of financial position as at 30 June 2023</b>		
<b>Assets</b>	<b>Ping Co</b>	<b>Pong Co</b>
<b>Non-current Assets</b>		
Property Plant and equipment	50,000.00	40,000.00
Investment in 20,000 ordinary shares in Pong Co at Cost	<u>30,000.00</u>	=
	<b>80,000.00</b>	<b>40,000.00</b>
<b>Current Assets</b>		
Inventory	3,000.00	8,000.00
Owed by Ping Co	-	10,000.00
Receivables	16,000.00	7,000.00
Cash	<u>2,000.00</u>	=
	<b>21,000.00</b>	<b>25,000.00</b>
<b>Total Assets</b>	<b>101,000.00</b>	<b>65,000.00</b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Ordinary shares of Sh.1	45,000.00	25,000.00
Revaluation surplus	12,000.00	5,000.00
Retained earnings	<u>26,000.00</u>	<u>28,000.00</u>
	<b>83,000.00</b>	<b>58,000.00</b>
<b>Current Liabilities</b>		
Owed to Pong Co	8,000.00	-
Trade Payables	<u>10,000.00</u>	<u>7,000.00</u>
	<b>18,000.00</b>	<b>7,000.00</b>
<b>Total equity and Liabilities</b>	<b>101,000.00</b>	<b>65,000.00</b>

**Additional information:**

1. Ping Co acquired its investment in Pong Co on 1 July 2022 when the retained earnings of Pong Co stood at Sh. 6,000.
2. The agreed consideration was Sh. 30,000 cash and further Sh. 10,000 on 1 July 2024. Ping Co cost of capital is 7%.
3. Pong Co has an internally developed brand name “Pongo” which was valued at Sh. 5,000 at the date of acquisition.
4. There have been no changes in the share capital or revaluation surplus of Pong Co since the date of acquisition.
5. At 30 June 2023, Pong Co had invoiced Ping co for goods to the value of Sh.2,000 and Ping Co had sent payment in full but this had not been received by Pong Co.
6. There is no impairment of goodwill. It is the group policy to value non-controlling interest at full fair value. At the date of acquisition, the non-controlling interest was value at Sh.9,000

Required: Prepare consolidated statement of financial position of Ping Co as at 30 June 2023  
(15 Marks)

**QUESTION FIVE**

**(15 MARKS)**

- a) The objective of financial reporting analysis is to provide an interpretation of the financial information for various stakeholders needs. Ratio analysis may be used to carry out such an analysis.

**Required;**

State and explain five business factors that affects the use of ratios for analysis.

**(5 Marks)**

- b) Qualitative characteristics of financial statements are the attributes that make information provided therein useful to primary users.

**Required:**

State and explain the four main enhancing qualitative characteristics.

**(4 Marks)**

- c) An intangible asset arising from development must be recognised if, and only if, specified criteria can be demonstrated.

**Required:**

State and explain the six conditions that have to be demonstrated.

**(6 Marks)**