



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY
EXAMINATION
2018/2019 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND
ECONOMICS
BACHELOR OF SCIENCE
(ECONOMICS)**

COURSE CODE: ECO 2209

**COURSE TITLE: ACCOUNTING AND
CONTROL**

**DATE: 15TH APRIL, 2019
1630HRS**

TIME: 1430 -

INSTRUCTIONS TO CANDIDATES

1. Answer question **ONE** and any other **THREE** questions
2. All examination rules apply

This paper consists of 8 printed pages. Please turn over

SECTION A

QUESTION ONE

Your firm is the newly appointed external auditor to a large company that sells, maintains and leases office equipment and furniture to its customers and you have been asked to co-operate with internal audit to keep total audit costs down. The company wants the external auditors to rely on some of the work already performed by internal audit.

The internal auditors provide the following services to the company:

- I. A cyclical audit of the operational of internal controls in the company's major functions (operations ,finance, customer support and information services)
- II. A review of the structure of internal controls in each major function every four years
- III. An annual review of the effectiveness of measures put in place by management to minimize the major risks facing the company

During the current year, the company has gone through a major internal restructuring in its information services function and the internal auditors have been closely involved in the preparation of plans for restructuring, and in the related post-implementation review.

Required:

- a) Explain the extent to which your firm will seek to rely on the work of the internal auditors in each of the areas noted above. **(7marks)**

- b) Describe the information your firm will seek from the internal auditors in order for you to determine the extent of your reliance. **(7marks)**
- c) Describe the circumstances in which it would not be possible to rely on the work of the internal auditors. **(6marks)**
- d) Explain why it will be necessary for your firm to perform its own work in certain audit areas in addition to relying on the work performed by internal audit. **(5marks)**
- (Total: 25marks)**

SECTION B

QUESTION TWO

The finance manager of mitarakwa ltd extracted the following trial balance as as 31st October 2018

	Shs "000"	Shs"000 "
Ordinary share capital (shs 10 each fully paid)		50,000
Share premium		450
12% debentures		3500
General reserve		2000
Retained earnings 1 November 2017		3500
Motor vehicle at cost	4500	
Provision for depreciation		350
Freehold property	57,000	
Trade payables		700
Purchase and sales	100,000	130,000
Inventory 1 November 2017	3500	
Furniture and fitting at cost	2000	
Provision of depreciation		140
Goodwill	600	
Rent receivable		400
Salaries and wages	2500	

General expenses	370	
Vehicle running expenses	2300	
Bad debts	130	
Telephone and postage	600	
Water and electricity	300	
Rates and insurance	320	
Cash at bank	15480	
Impairment loss on goodwill 1 November 2017		60
	191,100	191,100

Additional information

1. Closing inventory was valued at sh.4,500,000
2. Credit sales amounting to sh.180, 000 were made on 31st October 2018 but no entries were made in the books
3. Accrued salaries and telephone bills amounted to sh.140,000 and sh.60,000 respectively
4. Returns outwards amounting to sh.130000 were dispatched on 31st October 20X8 but no entries were made in the books
5. Rent for month of October 2018 amounting 40,000 had been received from the tenant
6. Provision for depreciation on furniture and fitting and the motor vehicles are 10% and 20% on cost respectively. During the year goodwill was impaired by 10%.
7. Provision for bad and doubtful debts of 5% on trade debtors should be made
8. The directors had proposed a dividend of 15% on issued share capital last year and 10% current year and a transfer of sh.3,000,000 to the general reserve. Last year's dividend was paid in the current year but no entries had been made in the books.
9. The debenture interest has not yet been paid.
10. Corporation tax to be provided at 30% of the profit before tax

Required

- a) Statement of comprehensive income for the year ended 31st October 2018 **(8marks)**
- b) Statement of financial position as at 31st October 2018. **(7marks)**

QUESTION THREE

3(a) Describe the purpose and importance of flow fund statement in reviewing the business results and situation. **(3marks)**

(b).The following information has been extracted from the account of maendeleo company ltd. For the year ended 31st December 2017. Comparable figures for the previous year are also shown.

Profit statement for the year ended 31st December

	2017	2016
	“000”	“000”
	shs	shs
Sales	9600	600
Less cost of goods sold	5900	3500
Gross profit	<u>3700</u>	<u>2500</u>
Less trading expenses		<u>1650</u>
1350		

Trading profit		2050
1150		
Less debenture interest	<u>75</u>	<u>75</u>
Net profit before taxation		1975
1075		
Less corporate tax	<u>960</u>	<u>480</u>
Net profit after taxation	1015	595
Less ordinary share dividend	<u> </u>	<u>525</u>
375		
	<u>490</u>	<u>220</u>

BALANCE SHEET AS AT 31ST DECEMBER

	2017	2016
	Shs“000”	Shs
“000”		
<u>Asset employed</u>		
Fixed Assets at cost	3700	
2800		
Less depreciation	<u>750</u>	<u>600</u>
	2950	2200
<u>Current Asset</u>		
Stock	1650	1200
Debtors	1050	750
Cash	<u> </u>	<u>240</u>
	2700	2190
	5650	4390

Less current liabilities

Creditors	600		435	
Taxation	960		480	
Propose dividend	525		375	
Bank overdraft	195	<u>2280</u>	—	<u>1290</u>
		<u>3370</u>		<u>3100</u>

2017

2016

Shs

shs

Financed by:

Ordinary share capital

Authorized, issued & fully paid (20 per share) 1500
1500

Undistributed profits 1340
850

2840

2350

Long term loan

10% debenture (secured) 530
750

Capital employed

3370

3100

Required

Calculate below accounting ratios for both 2016 and 2017 which are significant in assessing the profitability performance and liquidity position of Maendeleo Corporation.

- a) Return on capital employed **(2marks)**
- b) Gross profit ratio **(2marks)**
- c) Net profit ratio **(2marks)**
- d) Asset turnover ratio **(2marks)**
- e) Liability ratio **(2marks)**
- f) Debtor ratio **(2marks)**

Total 15marks

QUESTION FOUR

Kiatu Ltd is a shoe manufacturing company based in industrial area. As an audit assistant in Kiplagat and associates (certified public accountant)

You have been assigned the task of audit the company's inventory for the financial year ending 31st march 2018

Required

- a) Identify and explain four inherent risk associated with a company's inventory and work –in progress **(5marks)**
- b) Explain four audit objectives of an auditor attending a client's physical inventory count. **(5marks)**
- c) Outline the audit procedures you would carry out during company's physical inventory count. **(5marks)**

Total 15marks

QUESTION FIVE

- a) Explain five types of errors that do not affect the agreement of a trail balance **(4marks)**

b) The following balances were extracted from the books of accounts of Peter Enterprises for the year 2018

Equipment	277,000
Capital	361,300
Net profit	183,000
Inventory	131,200
Drawings	127,500
Accounts payables	133,200
Cash in hand	145,000
Cash at bank	168,400
Account receivables	124,900
Prepaid	13,500

Prepare a statement of financial position as at 31st December 2018, showing the following.

- a) Non-current liabilities **(2marks)**
- b)** Current liabilities **(2marks)**
- c) Non-current assets **(1mark)**
- d) Current assets **(1mark)**
- e) Capital **(1mark)**
- f)** Define what's accounts, and explain the three main types of accounts **(4marks)**

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