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**University Examinations 2015/2016**

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BCM 2224: COOPERATIVE FINANCIAL REPORTING**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Explain the extent to which cash flow accounting satisfies the information needs of shareholders and managers. (8 marks)
2. Discuss the skills required by an accountant in respect of external report (4 marks)
3. Explain the skills required by an account in respect to internal reports (8 marks)
4. Explain why it is the user who should determine the information that the accountant collects measures and reports than the accountant who is the expert in financial information. (10 marks)

**QUESTION TWO (20 MARKS)**

Milimani sacco is going to set up a business on 1 January 2015. They estimate that their first six months in business will be as follows

1. They will put Kshs 150,000 into a bank account for the firm on 1 January 2015
2. On 1 January 2015 they will buy machinery Ksh 30,000, motor vehicles Ksh 24,000 and premises Kshs 75,000, paying for them immediately.
3. All purchases will be effected on credit. They will buy Ksh 30,000 goods on 1 January and will pay for th4ese in February. Other purchases will be: rest of January Ksh48,000, February, March, April, May and June Ksh 60,000 each month. Other than the Ksh 30,000 worth bought in January, all other purchases will be paid for two months after purchase.
4. Sales (all on credit) will be Ksh 60,000 for January and Ksh 75,000 for each month after. Customer will pay for the goods in the fourth month after purchase i.e. Kshs 60,000 is received in May.
5. They will make drawings of Ksh. 1,200 per month.
6. Wages and salaries will be Ksh 2,250 per month and will be paid on the last day of each month.
7. General expenses will be Ksh 750 per month, payable in the month following that in which they are incurred.
8. Rate will be paid as follows: for the three months to 31 March 2015, by cheque on 29th February 2015: for the 12 months ended 31 March 2015 by cheque on 31st July 2015. Rates are Ksh 4,800 per annum.
9. They will introduce new capital of Ksh 82,500 on April 2015
10. Insurance covering the 12 montsh of 2015 of Ksh 2,100 will be paid for by cheque on 30th June 2015
11. All receipts and payments will be by cheque
12. Inventory on 30th June 2015 will be Ksh 30,000
13. The net realizable value of the vehicles is Ksh 19,200, machinery Ksh 27,000 and premises Kshs 75,000.

**Required:**

1. Draft a cash budget (includes bank) month by month for the period January to June, showing clearly the amount of balance or overdraft at the end of each month (8 marks)
2. Draft an operating cash flow statements for the six-month period (8 marks)
3. Assuming that Milimani sacco sought your advise as to whether they should actually set up in business, state what further information you would require. (4 marks)

**QUESTION THREE (20 MARKS)**

1. Discuss the different formats and styles of reports. (4 marks)
2. Explain the users of the report and what you should do to ensure that the particular needs abilities of the users of your report will be met. (16 marks)

**QUESTION FOUR (20 MARKS)**

Mr. Norman set up a new business on 1 January 2015. He invested Ksh 50,000 in the new business on that date. The following information is available.

1. Gross profit was 20% of sales. Monthly sales were as follows

|  |  |  |  |
| --- | --- | --- | --- |
| Month | Sales | Month | Sales |
| January | 15,000 | May | 40,000 |
| February | 20,000 | June | 45,000 |
| March | 35,000 | July | 50,000 |
| April | 40,000 |  |  |

1. 50% of sales were for cash. Credit customers (50% of sales) pay in month following sale
2. The suppliers allowed one month’s credit
3. Monthly payments were made for rent and rates Ksh 2,200 and wages Ksh 600
4. On 1 January 2015, the following payments were made Ksh. 80,000 for a five year lease of business premises and Ksh 3,500 for insurances on the premises for the year. The realizable value of the lease was estimat4ed to be Ksh 76,000 on 30 June 2015 and Ksh 70,000 on 31 December 2015.
5. Staff sales commission of 2% of sales was paid in the month following the sale

**Required:**

1. A purchases budget for each of the first six months
2. A cash flow statements for the first six months
3. A statement of operating cash flows and financial positions as at 30th June 2015
4. Write a brief letter to the bank supporting a request for an overdraft.

**QUESTION FIVE (20 MARKS)**

1. “It is essential that the information in financial statements has prudent characteristics if the financial statements are to be objective”. Discuss. (10 marks)
2. While accountants may be free from bias in the measurement of economic information, they cannot be unbiased in identifying the economic information that they consider to be relevant. Discuss (10 marks)