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**University Examinations 2015/2016**

FOURHT YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BFC 3476: FORENSIC ACCOUNTING**

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

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

**QUESTION ONE (30 MARKS)**

The following information was extracted and presented to proprietors of Nyamba Safi Enterprise by the firms manager Mr. Mlanono for the year to 28th February 2016.

|  |  |  |
| --- | --- | --- |
|  | Shs. 000 | Shs. 000 |
| Sales |  | 480,000 |
| Opening stock | 40,000 |  |
| Purchases | 150,000 |  |
| Premises | 800,000 |  |
| Motor vehicles | 200,000 |  |
| Plants & Machineries | 300,000 |  |
| Equipments & Furniture | 50,000 |  |
| Long term Investments | 100,000 |  |
| Computers | 600 |  |
| Short term investments | 10,000 |  |
| Sales returns | 10,000 |  |
| Purchases returns | \_\_\_\_\_ | 15,000 |
| Salaries & Wages | 80,000 | \_\_\_\_\_ |
| Motor vehicle fuel expenses | 1,200 | \_\_\_\_\_ |
| Stationeries, printing & rates | 300 | \_\_\_\_\_ |
| Rent of agency office | 1,440 | \_\_\_\_\_ |
| Management allowances | 300 | \_\_\_\_\_ |
| Electricity & water | 1,400 | \_\_\_\_\_ |
| Repairs & Maintenance | 7,500 | \_\_\_\_\_ |
| Advertising & Telephones | 800 | \_\_\_\_\_ |
| Staff gratuities | \_\_\_\_\_ | 80,000 |
| Discounts received | \_\_\_\_\_ | 12,000 |
| Miscellaneous Income | \_\_\_\_\_ | 120,000 |
| General Expenses | 9,400 | \_\_\_\_\_ |
| Discount allowed | 5,000 | \_\_\_\_\_ |
| Bank | 15,000 | \_\_\_\_\_ |
| Debtors | 23,000 | \_\_\_\_\_ |
| Creditors | \_\_\_\_\_ | 27,000 |
| Cash | 560 |  |
|  |  |  |
| Accumulated depreciation |  | 51,000 |
| KCB loans, 10%, 5 years |  | 400,000 |
| Profits and balance |  | 101,500 |
| Owners capital |  | 560,000 |
| Finances costs |  | \_\_\_\_\_ |
|  |  |  |

Notes:

1. Closing stocks Shs. 5,000,000
2. Assets depreciation policy straight line

Premises 1% p.a on cost

Motor vehicles 10% p.a on cost

Plant & machineries 5% p.a on cost

Equipment & furniture 15% p.a on cost

Computers 20% p.a on cost

1. Accrued management allowances Shs. 100,000
2. On receipt of the above accounts, the proprietors of Nyama Safi enterprises decided to call for forensic examination of accounts and financial transactions following serious complaints and written allegations against Mr. Mlanono by the customers, employees and suppliers Mr. Mlanono was given 20 working days leave effective 1.3.16 for ease of the forensic scrutiny and evaluation of accounts.
3. During the forensic exercise, the following was discovered and investigated.
4. An amount of goods sold shs. 1,500,000 had been returned by customers. The goods were included in sales account as no current adjustment had been made. However, on investigations, it was found out the goods had been taken by Mr. Mlanono for personal use without consent/authority of the proprietors.
5. In the sales accounts, sale item of shs. 11,600,000, VATABLE at 16% had not been deducted VAT by Mr. Mlanono intentionally so as to maximum his 5% commission on sales, for sales realized over the above shs. 475 million.
6. Mr. Mlanono’s wife, Grace had supplied goods to the enterprise amounting to shs. 5,000,000 during the year and was fully paid for the supply. However, on forensic investigation only goods worth shs. 3,375,000 were actually supplied, duly delivered and received by the enterprise. The balance over and above was a fraud on the part of Mr. Mlanono, which they pocketed.
7. Included in the general expenses account was a purchase of a Toyota fielder saloon acquired at a cost of shs. 1,400,000. On investigations, it was found out that Mr. Mlanono had bought the vehicle for his own self and gave it to his daughter who was pursuing studes in environment science at Moi University. No management approval had been given for purchase of enterprise vehicle.
8. Included in the rent of agency office was an amount of shs. 240,000 in excess of contractually agreed Mr. Mlanono would issue a cheque of shs. 120,000, instead of a cheque of shs. 100,000 to the manager of leased property. The manager of the leased property would then refund shs. 20,000 to Mr. Mlanono via MPesa. However, Mr. Mlanono pocketed all the Monies he received on MPesa for the entire year.
9. Included in the motor vehicles fuel expenses are personal expenses incurred by Mr. Mlanono in August 2015, amounting to shs. 360,000. Mr. Mlanono had taken10 days leave of rest and travelled to Cape town in South Africa with his long time secret lover and soul mate. No management authority or consent or approval for this expenditure had been given by the proprietors.
10. As at 28.2.16 Mr. Mlanono had served Nyamasafi enterprises for 5 years. He was entitled to a salary of shs. 300,000 per month, management allowance of shs.20,000 for every board meeting attended and he also served as the secretary. He was also entitled to a 5% commission on annual sales realized over and above 475 Million. In addition, he was entitled to a 30% Gratuity in basic salary for each and every complete year of service to the firm. In the year ended 28.2.16the company only owed him shs. 100,000 on accrued management allowances, in addition to commission on sales which were to be paid after consideration of annual accounts and financial statements.
11. During the final stage of Forensic investigations, the proprietor (Nyamai and his wife Safina) together with Forensic experts summoned Mr. Mlanono to come and make some presentations and give light or explain some of the matters/issues that had arisen. However, Mr. Mlanono wrote a letter of resignation, citing financial and family pressures that had triggered him to fraudulent activities and pleaded not to be taken to court and demanded to be paid all monies due to him including the month of March salary.

The proprietors agreed not to take him to court and to pay all monies due to Mr. Mlanono but subject to him paying all the monies he illegally took or he had stolen from the firm. Salary would attract a net tax of 25% on the basic salary while gratuity would attract net tax of 5% on total amount.

**Required:**

1. Compute the amount stolen by Mr. Mlanono on account of fraud (3 marks)
2. Compute the total amount of final dues and benefits due to Mr. Mlanono. (3 marks)
3. Journal entries to adjust the account affected by frauds and for recovery of lost and stolen assets by Mlanono. (6 marks)
4. Ledger accounts to record the transactions in (c) above (4 marks)
5. Correct statement of comprehensive income for Nyama Safi enterprise for the year to 28.2.16. (8 marks)
6. Statement of financial position as at 28.2.16 (6 marks)

**QUESTION TWO (20 MARKS)**

1. ISA 240 requires practicing accountants (Auditors) to detect frauds when auditing and reviewing accounts and financial statements.

**Required:**

1. Distinguish between errors and frauds.
2. Theft by servant and money laundering
3. Differentiate conspiracy from robbery. How are they different from embezzlement?
4. Explain the term aiding and abetting” crime with regard to financial accounting.
5. Explain the term fraud triangle and illustrate how opportunities, pressure and intentions can trigger the commission of frauds.

**QUESTION THREE (20 MARKS)**

Recent survey reports by synovate IPSOS shows that employees in supermarket have mastered the art of dodging internal controls in order to steal from the chain shops and in most cases have stolen billions of shillings in aggregates.

Managers of the chain shops have learnt the art of manipulating accounts and financial statements in order to deceive share holders and regulatory authorities.

**Required:**

In response to the above observations and business tragedy of the modern times. Discuss the control elements or mechanisms that supermarkets, stakeholders and government can be put in place to ensure and promote.

1. Integrity and reliability of financial reports and accounts (5 marks)
2. Compliance with applicable laws and regulations (5 marks)
3. Strategic and tactical financial operations efficiency and effectiveness in their enterprises

(5 marks)

1. Integrity and stewardship among employees and managers. (5 marks)

**QUESTION FOUR (20 MARKS)**

In one of the companies in the financial sector operating as a microfinance bank in Kenya, a financial consultant as observed and computed the following:

* Revenue/Turnover per year shs. 400 million
* Rate of frauds 5% in turnover shs. 20 million
* Cost of detecting frauds 1.25% on turnover shs. 5 million
* Cost of investigations of frauds 1% on turnover shs. 4 million
* Cost of preventing frauds 2.5% shs. 10 million on turnover.

**Required:**

1. Determine the total cost of fraud per year to the above microfinance bank based on turnover.
2. Explain with clear highlights the likely cause of frauds in the banking systems or sector.
3. What are the likely indicators of frauds existence in a commercial banking environment?
4. Discuss the effects of frauds on the operational efficiency and effectiveness of a bank.

**QUESTION FIVE (20 MARKS)**

1. Discuss the process of money laundering (9 marks)
2. Explain the differences between syndicated corruption and political corruption (4 marks)
3. Explain the mechanisms that governments and stakeholders can put in place or use to combat and control:
4. Money laundering (3 marks)
5. Corruption (4 marks)