(1)

(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER

SPECIAL/SUPPLIMENTARY EXAMINATION

FOR THE DEGREE OF MASTERS IN BUSINESS ADMINSTRATION

COURSE CODE: ADVANCED FINANCIAL ACCOUNTING

COURSE TITLE: MBA 821

DATE: 18/10/2018 **TIME:** 9:00 A.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination cheating

SECTION A

QUESTION ONE

a) The international accounting standards board (IASB) framework requires that a useful set of financial statement should be reliable. Explain five qualities of financial statements that make them reliable. (10 marks)

b) The International Accounting Standards Board (IASB) is currently working with other Accounting Standards setting bodies in the world to have a global applications of International Financial reporting standards (IFRS). An important point of focus is regulatory/ accounting concepts framework in the world.

   Required:
   Explain the importance of a regulatory/accounting concepts framework and the key issues that such a framework should address. (10 marks)

c) Accounting reports are not sufficiently accurate to be truthful and they are not sufficiently truthful to be accurate. Hence they are neither accurate nor truthful. Critically comment on the above statement. (10 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

Q. On 1 July 2014 Bycomb acquired 80% of Cyclip's equity shares on the following terms:
– a share exchange of two shares in Bycomb for every three shares acquired in Cyclip; and
– a cash payment due on 30 June 2015 of Kshs.1·54 per share acquired (Bycomb's cost of capital is 10% per Annum).
At the date of acquisition, shares in Bycomb and Cyclip had a stock market value of Kshs.3·00 and Kshs.2·50 each respectively.
Statements of profit or loss for the year ended 31 March 2015:

	Bycomb 000	Cyclip 000	
Revenue	24,200	10,800	
Cost of Sales	(17,800)	(6,800)	
Gross profit	6,400	10,800	
Distribution costs	(500)	(340)	
Adminstrative expenses	(800)	(360)	
Finance costs	(400)	(300)	
Profit before tax	4,700	3,000	
Income tax expense	(1,700)	(600)	
Profit for the year	3,000	2,400	

QUESTION THREE

Mwenyeji Limited exported some of its products through an overseas branch whose currency is "Kove". The trial balances of the Head Office and the Branch as at 30 June 2000 are as follows:

	Head Office		Branch	
	Sh. '000'	Sh. '000'	Kove '000'	Kove '000'
Freehold buildings at cost	14,000		63,000	
Debtors/Creditors	8,900	9,500	36,000	1,560
Sales		104,000		432,000
Issued share capital		40,000		
Components sent to Branch		35,000		
Head Office/Branch Accounts	60,100			504,260
Branch cost of sales			360,000	
Provision of depreciation on machinery.		1,500		56,700
Head Office cost of sales (including goods sent to Branch)	59,000			
Administrative cost	15,200		18,000	
Stock 30 June 1999	28,900		11,520	
Profit and loss account		2,000		
Machinery at cost	6,000		126,000	
Remittances		28,000	272,000	
Cash at Bank	4,600		79,200	
Selling and distribution cost	23,300		28,800	
	220,000	**220,000**	**994,520**	**994,520**

The following adjustments are to be made:

1. The cost of sales figure includes a depreciation charge of 10% per annum on cost of machinery.
2. A provision of Sh.300,000 for unrealized profits in the branch stock is to be made. The closing stock in the branch was sent close to the balance sheet date.
3. On 26 June 2000, the Branch remitted Kove. 16,000,000. This amount was received by the Head Office on 14 July 2000 and realized Sh.1,900,000.
4. During May 2000, a customer of the branch by mistake paid the Head Office for goods supplied by the Branch. The amount due from him was Kove. 320,000 which realized Sh.36,000. It has correctly been recorded in the Head Office books but has not yet entered in the branch accounts.
5. A commission of 5% of the net profits of the branch after charging such commission is payable to the Branch Manager.
6. The exchange rates are:
    - At July 1999 10 Kove = Sh.1
    - At 30 June 2000

Equity in the separate financial statements of Cyclip as at 1 April 2014:

	Kshs.'000
Equity	
Equity shares of Kshs.1 each	12,000
Retained earnings	13,500

The following information is also relevant:

(i) At the date of acquisition, the fair values of Cyclip's assets were equal to their carrying amounts with the exception of an item of plant which had a fair value of Kshs.720,000 above its carrying amount. The remaining life of the plant at the date of acquisition was 18 months. Depreciation is charged to cost of sales.

(ii) On 1 April 2014, Cyclip commenced the construction of a new production facility, financing this by a bank loan. Cyclip has followed the local GAAP in the country where it operates which prohibits the capitalization of interest. Bycomb has calculated that, in accordance with IAS 23 *Borrowing Costs*, interest of Kshs.100, 000 (which accrued evenly throughout the year) would have been capitalized at 31 March 2015. The production facility is still under construction as at 31 March 2015.

(iii) Sales from Bycomb to Cyclip in the post-acquisition period were Kshs.3 million at a mark-up on cost of 20%. Cyclip had Kshs.420, 000 of these goods in inventory as at 31 March 2015.

(iv) By comb's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Cyclip's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(v) On 31 March 2015, Bycomb carried out an impairment review which identified that the goodwill on the acquisition of Cyclip was impaired by Kshs.500,000. Impaired goodwill is charged to cost of sales.

Required:

(a) Calculate the consolidated goodwill at the date of acquisition of Cyclip. (8 marks)

(b) Prepare extracts from Bycomb's consolidated statement of profit or loss for the year ended 31 March 2015, for:

(i) Revenue; (2 marks)

(ii)cost of sales; (4 marks)

(iii) Finance costs; (3 marks)

(iv)Profit or loss attributable to the non-controlling interest (3 marks)

Total Marks (20 marks)

- Average rate for the year 8 Kove = Sh 1
- On date of purchase of Building and Machinery 9 Kove = Sh.1

7 Kove – Sh.1

Required:

(a) Detailed trading and profit and loss accounts of the Head Office and the Branch for the year ended 30 June 2000.

(b) A Balance Sheet as at 30 June 2000 combining the figures of the Head Office and the Branch. Ignore taxation. **(Total: 20 marks)**

QUESTION FOUR

a) What are the advantages of current purchasing power? 10 marks

b) Two of the qualitative characteristics of information contained in the IASB's Conceptual Framework for Financial Reportingare understandability and comparability.

Required:

Explain the meaning and purpose of the above characteristics in the context of financial reporting and discuss the role of consistency within the characteristic of comparability in relation to changes in accounting policy. (10 marks)

(Total marks 20)

QUESTION FIVE

a) The objective of IAS 29 is to establish specific standards for enterprises reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful. Justify this statement (5 marks)

b) Kanduyi enterprises which deal in farm implements prepare its financial statements using both the historical cost accounting method and the inflation adjusted accounting method.

Provided below are the historical cost accounting comparative statement of financial position prepared as at 31 December 2012 and the trading profit and loss account for the financial year ended 31 December 2013.

	Financial position as at December	
	2013 Sh. "000"	**2012 Sh. "000"**
Assets:		
Non-current assets:		
Buildings	815,000	600,000
Machinery and equipment	200,000	350,000
	1,015,000	950,000
Current assets:		
Stock	420,000	340,000
Debtors	270,000	230,000
Bank balance and cash in hand	210,000	180,000
	900,000	750,000
Total assets.	1,915,000	1,700,000
Equity and liabilities:		
Capital and reserves:	600,000	500,000
Ordinary share capital	300,000	200,000
Share premium	490,000	380,000
Retained profit	1,390,000	1,080,000
Non-current liability:		
10% debentures	300,000	400,000
Current liabilities:		
Trade creditors	185,000	200,000
Proposed dividend	40,000	20,000
	225,000	220,000
Total equity and liabilities	1,915,000	1,700,000

Trading profit and loss account for the year ended 31 December 2013	
	Sh. "000"
Sales:	3,600,000
Stock – 1 January 2013	340,000
Purchase	2,780,000

	3,120,000
Less: Stock – 31 December 2013	420,000
Cost of sales	(2,700,000)
Gross profit	900,000
Selling and distribution costs	(215,000)
Administration costs	(180,000)
Depreciation	(185,000)
Debenture interest	(35,000)
	(615,000)
Operating profit	285,000
Profit on disposal of equipment	45,000
Profit before tax	330,000
Tax	(120,000)
Profit after tax	210,000
Dividends: Paid	(60,000)
Proposed	(40,000)
	(100,000)
Retained profit for the year	110,000
Retained profit brought forward	380,000
Retained profit carried forward	490,000

Additional information:

1. Sales, purchases, selling and distribution costs and administration costs occurred evenly during the year ended 31 December 2013.

2. Debenture interest is paid semi-annually on 30 June and 31December. Debentures amounting to Sh. Sh.100, 000, 000 were redeemed on 1 July 2013.

3. The company sold equipment with a net value of Sh.100, 000,000 on 30 September 2013 at a profit of Sh.45, 000,000. No depreciation was provided on this equipment for the year ended 31 December 2013.

4. On 31 March 2013, the company purchased a building at Sh.350, 000,000. A full year's depreciation was provided on this newly purchased building at the rate of 10% per annum. Depreciation was provided on the other assets as follows:

	Sh.
Old buildings	100,000,000
Machinery and equipment	50,000,000

5. The company issued new ordinary shares at premium on 31 March 2013. The old shares were issued at the time of incorporation of the company when the general retail price index (RPI) was 100.

6. The closing stocks represent one month's purchases.

7. Tax was paid in two equal installments on 30 June and 31 December 2013, while interim dividends were paid on 30 September 2013.

8. The general retail price index moved uniformly in the year.

9. Relevant indices were as follows:

	Retail price index
Date of purchase of: Old buildings	105
New building	122
Machinery and equipment including that sold in the year	110
30 November 2012	119.5
31 December 2012	120
31 March 2013	123
30 June 2013	126
30 September 2013	129
30 November 2013	131.5
31 December 2013	132
Average index for the year ended 31 December 2013	126.

Required:

The following financial statements using the current purchasing power accounting method:

(a) Trading and profit and loss account for the year ended 31 December 2013.(110 marks)

(b) Balance sheet as at 31 December 2013. (5 marks)

(Total: 20 marks)