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*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2015/2016 ACADEMIC YEAR**  
**SECOND YEAR SECOND SEMESTER**  
**MAIN EXAMINATION**

**FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION**  
**COURSE CODE: ADVANCED FINANCIAL ACCOUNTING**

**COURSE TITLE: MBA 821** 12/05/16 ✓  
**DATE: 2016**      **TIME: 3:00 P.M. - 6:00 P.M.**

**INSTRUCTIONS TO CANDIDATES**

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

TIME: 3 Hours

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examination cheating

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## 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 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

The figures that relate to the income statement and the Statement of Changes in Equity for Addis Limited and as subsidiaries Bunyala Limited and Chania Limited for the year ended 30 November 2014 are as follows:

	Addis Ltd. Sh. '000'	Bunyala Ltd. Sh. '000'	Chania Ltd. Sh. '000'
Sales revenue	84,000	66,000	48,000
Inventory 1 December 2013	(3,824)	(3,757)	(2,822)
Inventory 30 November 2014	4,286	4,124	2,452
Purchases	(50,862)	(49,862)	(38,430)
Distribution cost	(13,440)	(8,050)	(9,600)
Administrative expenses	(8,400)	(3,950)	(6,400)
Taxation: Current	(2,140)	(1,050)	-
Deferred	(1,420)	(300)	2,040
Dividends			
Preference: Interim paid 31 May 2014	-	(450)	-
Final paid 30 November 2014	-	(450)	-
Ordinary: Interim paid 31 August 2014	(3,000)	(500)	-
Final proposed 30 November 2014	(4,500)	(750)	(150)
Dividends received	18,300	12,600	9,200
Retained profit: 1 December 2013			

Issued and paid-up share capital:	Nil	9,000	Nil
Preference share capital	15,000	10,000	3,000
Ordinary share capital			

Additional information:

1. Addis Limited acquired 180,000 10% preference shares of Sh.20 each and 800,000 ordinary shares of Sh.10 each on 1 December 2008 when the balance on the profit and loss account of Bunyala Limited was Sh.8,100,000. Goodwill of Sh.2,500,000 had arisen on the purchase of these shares. Addis Limited is amortizing this goodwill over 5 years on the straight line basis.
2. Addis Limited acquired 180,000 ordinary shares of Sh.10 each in Chania Limited on 1 March 2014: the purchase price of these shares was to be fixed once the results for the year ended 30 November 2014 to maintain its trustee status.
3. Bunyala Limited makes sales to Addis Limited at its nominal selling price. In the year ended 30 November 2014, Bunyala Limited's sales to Addis Limited amounted to Sh.9,300,000. Stock purchased from Bunyala Limited and held by Addis Limited at cost amounted to Sh.540,000 and Sh.720,000 on 30 November 2013 and 30 November 2014 respectively.
4. Addis Limited sold an item of plant to Bunyala Limited on 1 December 2012 for Sh.2,400,000. Addis Limited had marked up its cost by 20%. Bunyala Limited is depreciating this item of plant to nil residual value on the straight line basis over 10 years with the charge appearing as part of cost of sales.
5. There has been no intra-group trade between Chania Limited and other two companies.
6. Group policy in relation to unrealised profit on intra-group sales is of assets as to remove the whole of the unrealised profit from the asset and from the company which made the profit on the sale of the asset adjusting the minority interest's share of this profit as appropriate. The amortization of goodwill is classified as an administrative expense and deemed to be a charge against the profit of the holding company.

**Required:**

The consolidated Income Statement and the portion of the Consolidated Statement of Charges in Equity that relates to accumulated profit, giving the details required by International Accounting Standard and the Kenya Companies Act, including reconciliation of the group retained profit for the year and carried forward.

**(Total: 20 marks)**

**QUESTION THREE**

Victoria Gowns is a fashionable ladies-wear chain of clothing stores, started in Kakamega, but now present in all the major towns in Kenya and in Kampala, Uganda and in Dar-es-salaam, Tanzania. The accounts of all the branches are maintained in the books of the head office, now situated in Nairobi. The figures below that refer to goods are stated at selling prices, following figures relate to transactions carried out by the Mombasa branch in the year ended 31 May 2011:

	Sh.'000'
Opening stock at commencement of the year	5,280
Goods received from head office	116,728
Goods received from Voi branch	560
Goods sent to Taita branch	720
Goods returned to Mombasa branch by credit customer (normal goods)	880
Goods returned to Voi branch by Mombasa credit customer (approved by Head office: All these goods had been marked up by 15%)	322
Goods returned by Mombasa branch to Head office	1,360
Cash sales	52,800
Cash stolen from Mombasa branch on 12 December 2010	240
Goods stolen from Mombasa branch on 12 December 2010	960
Credit sales (mainly to boutiques in beach hotels)	61,686
Mombasa branch administrative expenses	12,802
Mombasa branch distribution costs	17,072

**Additional information:**

4. The Mombasa branch is managed by a particularly competent group of women. Other than the thefts stated above, there were no shortages or surpluses of goods or cash during the year.
5. Demand for certain casual wear has been high during the year; to prevent stock-outs from occurring; these lines are normally marked up in price using a formula linked to the number of items sold in the proceeding week. Included in the opening stock were goods with a normal selling price of Sh. 800,000 but which had been marked up by a further 10% of this price. The normal selling price of the goods is head office cost plus 60% of cost. All these marked-up goods were sold in the year. Goods with a normal selling price of Sh. 1,120,000 had been marked up by an additional 15%. Three quarters of these goods had been sold by 31 May 2011.
6. In the income statements produced for management, cash stolen and goods stolen are shown as separate line items.

**Required:**

Prepare the Mombasa Branch Stock Account and the Mombasa Branch Mark-up Account in the books of the Head office, and the Memorandum income statement for the Mombasa Branch for the year ended 31 May 2011

**(Total: 17 marks)**

4.

## QUESTION FOUR

- 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. Discuss this statement (5marks )
- b). BZT Ltd. which deals in farm implements prepares 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 positions prepared as at 31 December 2012 and 2013 and the trading profit and loss account for the financial year ended 31 December 2013

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

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Proposed dividend	40,000	20,000
	<u>225,000</u>	<u>220,000</u>
Total equity and liabilities	<u>1,915,000</u>	<u>1,700,000</u>

<b>Trading profit and loss account for the year ended 31 December 2013</b>	
	<b>Sh. "000"</b>
Sales:	<u>3,600,000</u>
Stock – 1 January 2013	340,000
Purchase	<u>2,780,000</u>
	3,120,000
Less: Stock – 31 December 2013	<u>420,000</u>
Cost of sales	<u>(2,700,000)</u>
Gross profit	<u>900,000</u>
Selling and distribution costs	(215,000)
Administration costs	(180,000)
Depreciation	(185,000)
Debenture interest	<u>(35,000)</u>
	<u>(615,000)</u>
Operating profit	285,000
Profit on disposal of equipment	<u>45,000</u>
Profit before tax	330,000
Tax	<u>(120,000)</u>
Profit after tax	<u>210,000</u>
Dividends: Paid	(60,000)
Proposed	<u>(40,000)</u>
	<u>(100,000)</u>
Retained profit for the year	110,000
Retained profit brought forward	<u>380,000</u>
Retained profit carried forward	<u>490,000</u>

**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 31 December. 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.

6.

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:

	<b>Sh.</b>
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 instalments 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:

	<b>Retail price index</b>
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) Income statement account for the year ended 31 December 2013. (10 marks)
- (b) Statement of financial position as at 31 December 2013. (5 marks)
- (Total: 20 marks)**

7.

**QUESTION FIVE**

- a) Distinguish between “leasing” and “hire purchase” highlighting how each is accounted for.
- b) Nzoia Limited has been in business for several years dealing in electronic goods. All the firm’s goods are sold on hire purchase terms. The following trial balance extracted from the books of the firm as at 31 March 2014:

	Sh.'000'	sh.'000'
Ordinary share capital		53,200
Cash at bank and in hand	1,800	
Accounts payable		5,000
Operating expenses	16,000	
Property, plants and equipment (1 April 2013)	55,000	
Depreciation (1 April 2013)		20,000
Hire purchase instalments receivable	34,200	
Hire purchase sales		55,200
Purchases	24,600	
Inventory (1 April 2013)	<u>1,800</u>	
	133,400	<u>133,400</u>

**Additional information:**

- 1. Inventory as at 31 March 2014 was valued at sh.2, 400,000.
- 2. Property, plant and equipment should be depreciated at sh.5, 000,000 for the year ended 31 March 2014.
- 3. Each unit was sold on hire purchase basis on the following terms:

	Sh.	Sh.
Cash price	40,000	
Deposits	<u>(10,000)</u>	30,000
Interest		<u>6,000</u>
		<u>36,000</u>

4 Assume that all sales are made at the end of each quarter. The quarters end on 31 March, 30 June, 30 September and 31 December respectively. The balance due on each hire purchase sale is payable in four equal instalments of Sh. 9,000 per quarter payable at the end of each quarter and commencing in the quarter following that in which the sale was made.

5 The number of units sold during each quarter was made as follows:

Quarter to	Number of units sold.
30-Jun-13	100
30-Sep-13	200
31-Dec-13	300
31-Mar-14	600

All instalments were received on their due dates.

6 The sum of digits method is to be used to apportion interest, the appropriate amount being credited to the quarter in which an instalment is received.



- 7 Included in the operating expense is a lease rental payment of Sh.2, 000,000 paid at the commencement of the financial year. This relates to equipment whose fair value is Sh.8, 000,000. The payment has been treated as an operating lease whereas it is a finance lease. The duration of the lease is 5 years and interest is at 10% per annum. Lease rentals are paid in advance.

**Required:**

- (I) Income statement for the year ended 31 March 2014. 8 marks)
- (ii) Statement of Financial Position as at 31 March 2014 6 marks)  
(Total: 20 marks)

9.