(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ADVANCED FINANCIAL ACCOUNTING

COURSE TITLE: BCA 321

DATE: 6TH OCT, 2021 **TIME:** 9.00 -11.00 A.M

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 8 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)
QUESTION ONE

Because of increasing cross-border capital flows, the Accounting regulators around the world have an interest in ensuring that high quality, comprehensive information is available to investors in all markets. It's imperative to note that regulators have always issued a policy statement that note that all regulators should work together diligently to create sound international regulatory frameworks that will enhance the vitality of capital markets. They have applied this approach in a number of instances, including our recent adoption of the International Disclosure Standards developed by the International Organization of Securities Commissions (IOSCO) for non-financial statement information. Regulators' decision to adopt the International Disclosure Standards was based on conclusion that the standards are of high quality and that their adoption provides information comparable to the amount and quality of information that worldwide investors receive today.

Currently, issuers wishing to access capital markets in different jurisdictions must comply with the requirements of each jurisdiction, which differ in many respects. Regulators recognize that different listing and reporting requirements may increase the costs of accessing multiple capital markets and create inefficiencies in cross-border capital flows. Therefore various authorities are working with other securities regulators around the world to reduce these differences. To encourage the development of accounting standards to be considered for use in cross-border filings, projects have been working primarily through IOSCO, and focusing on the work of the International Accounting Standards Committee (IASC). Throughout this effort, regulators have been steadfast in advocating that capital markets operate most efficiently when investors have access to high quality financial information.

I your own opinion, discus whether the International Accounting standards:

a) Constitute a comprehensive, generally accepted basis of accounting **(5 marks)**
b) Are of high quality; and can be rigorously interpreted and applied. (**7 marks)**
c) In responding to the requests for comment set forth, please be specific in your response, explaining in detail your experience, if any, in applying IAS standards, and the factors you considered in forming your opinion. Please consider both our mandate for investor protection and the expected effect on market liquidity, competition, efficiency and capital formation. **(8 marks)**
d) Is there, at this time, enough expertise globally with IAS standards to support rigorous interpretation and application of those standards? What training have audit firms conducted with respect to the IASC standards on a worldwide basis? What training with respect to the IASC standards is required of, or available to, preparers of financial statements or auditors certifying financial statements using those standards? **(5 marks)**
e) Would further recognition of the IAS standards impair or enhance our ability to take effective enforcement action against financial reporting violations and fraud involving foreign companies and their auditors? If so, how? **(5 marks)**

(Total: 30 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

2a) Briefly explain the rationale for **IAS 12 Income Taxes** (4 marks)

A Limited Company has its Head Office in Delhi and a Branch in Bombay where a separate set of books isused. The following are the vital balances extracted on 31st December, 2012:

Head Office Trial Balance

Particulars	`	`
Share Capital (Authorised: 10,000 Equity Shares of ` 100 each)		
Issued: 8,000 Equity Shares		800,000
Profit and Loss Account 1.1.12		25,310
Interim Dividend paid- August 2012	30,000	
General Reserve		100,000
Fixed Assets	530,000	
Stock	222,470	
Debtors and Creditors	50,500	21,900
Profit for 2012		82,200
Cash Balance	62,730	
Branch Current Account	133,710	
	1,029,410	**1,029,410**

Branch Trial Balance

Particulars	`	`
Fixed Assets	95,000	
Profit for 2012		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	171,110	**171,110**

The difference between the balances of the Current Accounts in the two sets of books is accounted for as follows:

(a) Cash remitted by the Branch on 31st Dec., 2012, but received by the H.O. on 1st Jan. 2013: ` ksh.3000.

(b) Stock stolen in transit from Head Office and charged to the Branch by the Head Office but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability -ksh1,700.

Give the Branch Current Account in the Head Office books after incorporating Branch Trial Balance through Journal. Also prepare the company's statement of financial position on 31st December, 2012

QUESTION THREE

a) Briefly justify the existences of IAS 39 **(4marks)**

b)ABC Ltd has an authorized share capital of Sh.20, 000,000 divided into 1,500,000 ordinary shares of Sh.10 each and 250,000 8% preference shares of Sh.20 each.

An extract of the balance sheet as at 30 June 2013 was as follows:

		Sh.'000		**Sh.'000**
Fixed assets		7,040	**Equity**	
Current assets			500,000 ordinary shares of	
Stock	2,300		Sh.10 par value	5,000
Debtors	980		250,000 8 % preference shares	
Bank balance	530		of Sh.20 par value	5,000
	3,810		Share premium	300
Creditors	(550)	3,260		
		10,300		10,300

On 1 July 2013, the company offered 500,000 ordinary shares for sale to the public at Sh.15 each payable as follows:

- On application Sh.7 including the premium
- On allotment Sh.5
- On first and final call, Sh.3

Applications were received on 15 July 2013 and allotment made on 31 July 2013 . The allotment money was received on 15 August 2013.

The first and final call was made on 15 September 2013 and the money received on 30 September 2013.

The company received applications for 650,000 shares. Applications for 25,000 shares were rejected and the application money was refunded. The shares were then allocated to the remaining applicants on a pro rata basis, the excess of the application money being carried forward in part satisfaction of the amounts due on allotment.

An allotee of 3,000 shares failed to pay both the allotment and first and final call money and the shares were forfeited on 13 October 2013.

The forfeited shares were then re-issued at Sh.12 each on 21 October 2013.

Required:

(a) Ledger accounts to record the above transactions (10 marks)

(b) Statement of financial position as at 21 October 2013 (6 marks)

QUESTION FOUR

a) Account for IAS 1 (presentation of financial statements) **4 marks.**

b) The following information relates to ABC Ltd

Statement of Financial Position

LIABILITIES	2012	2013	ASSETS	2012	2013
Liabilities (50%) Capital Retained earnings Accumulated depreciation	50,000 100,000	50,000 100,000 10,000 10,000	Monetary Assets Inventories 2012,3000 units 2013, 2000 units Land Plant & Equipment	30,000 30,000 40,000 50,000	60,000 20,000 40,000 50,000
	150,000	170,000		150,000	170,000

INCOME STATENMENT FOR **ABC LTD FOR THE YEAR ENDING 31ST DECEMBER 2013 IS AS FOLLOWS:**

SALES (5000 Units @ 40)		200,000
Less: cost of goods sold:		
Opening stock 3000 units @10	30,000	
Add purchases : 4000 units @ 12	48,000	
	78,000	
Less closing inventory : 2,000 units @10	20,000	58,000
Gross margin		142,000
expenses		
Interest expenses	5,000	
Selling and admin expenses	117,000	
Depreciation	10,000	132,000
Net income		10,000

Additional information

i) On 31st December 2012 and 2013 the price level index was 100 and 180 respectively. The average price index for 2013 was 120.

ii) The inventory purchase were made when the price index was 150

iii) All revenue and costs were incurred evenly throughout the year with the exception of the cost of goods sold and depreciation expense.

iv) LIFO method has been assumed

v) Depreciation for plant and equipment was accumulated by straight line method on five year life.

Required:

Calculate the current Purchasing Power gain/Loss for the year 2013. **(16 marks)**

QUESTION FIVE

a) briefly explain the provisions of 1AS 21 (4 Marks)

b) Ali and Bali are in partnership trading as A and B Retailers. Similarly, Cheche and Dunga are in partnership trading as C and D Traders. It was mutually agreed that as at 1 January 2014, the partnership businesses be amalgamated into one firm, ABC and D Enterprises. The profit and loss sharing ratios of the partners both in the old and new partnership were as follows:

	Ali	**Bali**	**Cheche**	**Dunga**
Old firms	4	3	3	2
New firm	6	5	4	3

As at 31 December 2013, the balance sheets of the firms were as follows:

	A and B Retailers		**C and D Traders**	
	Sh.	**Sh.**	**Sh.**	**Sh.**
Non- current assets:				
Property		740,000		1,000,00 0
Fixtures and fittings		180,000		140,000

Motor vehicles		300,000		180,000
		1,220,000		1,320,000
Current assets:				
Stock	830,000		660,000	
Investments	80,000		-	
Debtors	680,000		580,000	
Bank balance	340,000		-	
	1,930,000		1,240,000	
Current liabilities:				
Creditors	(520,000)		(600,000)	
Bank overdraft	-	1,410,000	(90,000)	550,000
Net assets		2,630,000		1,870,000
Capital accounts:				
Ali		1,500,000	Cheche	1,100,000
Bali		1,050,000	Dunga	700,000
		2,550,000		1,800,000
Current accounts:				
Ali	30,000		Cheche 30,000	
Bali	50,000	80,000	Dunga 40,000	70,000
		2,630,000		1,870,000

The agreement to amalgamate the firms contained the following provisions:

1. Provision for bad and doubtful debts at the rate of 5% was to be made in respect of debtors and a provision for discount receivable at the rate of $2^1/_2$% was to be made in respect of creditors.

2. ABC and D Enterprises were taken over the old partnerships' assets at the following values:

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	A and B Retailers	C and D Traders
	Sh.	Sh.
Stock	845,000	639,000
Motor vehicles	280,000	130,000
Fixtures and fittings	160,000	-
Property	1,000,000	-

3. The property and fixtures of C and D traders were not to be taken over by ABC and D Enterprises. These assets were sold for Sh. 1,350,000 on 1 January 2014.

4. Bali was to take over his firm's investments at value of Sh.76, 000

5. The total capital of ABC and D Enterprises was to be Sh. 5,400,000. This was to be contributed by other partners in their profit or loss sharing ratios, any adjustments necessary being made in cash.

6. Goodwill relating to the two firms was to be recognized as follows:

A and B Retailers	-	Sh. 630,000
C and D Traders	-	Sh. 450,000

Required:

(a) The relevant accounts to close off the books of A and B Retailers and C and D Traders. **(10 marks)**

(b) The opening balance sheet of ABC and D Enterprises as at 1 January 2014. **(6 marks)**

(Total: 20 marks)