(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF MASTERS IN BUSINESS ADMINSTRATION

COURSE CODE: ADVANCED FINANCIAL ACCOUNTING

COURSE TITLE: MBA 821

DATE: 22ND FEBRUARY,2021 TIME: 9.00AM – 12NOON

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE IN SECTION A AND ANY OTHER TWO (2) QUESTIONS IN SECTION B

TIME: 3 HOURS

KIBU observes ZERO tolerance to examination cheating

SECTION A (COMPULSORY)

QUESTION ONE

a) A number of attempts have been made since the 1970s to create some form of more coherent Accounting conceptual framework. The IASB version, known as the Framework for the Preparation and Presentation of Financial Statements, was issued in 1989. It belongs to the family of conceptual frameworks for financial reporting that have been developed by accounting standard setters in a number of countries where accounting standard setting is carried out by a private sector body. On one level, such conceptual frameworks may be considered attempts to assemble a body of accounting theory (or interrelated concepts) as a guide to standard-setting, so that standards are (as far as possible) formulated on a consistent basis and not in an ad hoc manner. On another but complementary level, they may be thought of as devices to confer legitimacy and authority on a private sector standard setter that lacks the legal authority of a public body. The IASB, as a private sector standard setter, shares these reasons for developing a conceptual framework.

Conceptual frameworks developed by accounting standard setters are essentially based on identification of 'good practice' from which principles are derived inductively. The criteria for identifying 'good practice' are related to the assumed objectives of financial reporting. At the same time, attention is paid to conceptual coherence, and the development process typically involves 'conceptual tidying up'. Conceptual frameworks may be written in a prescriptive style or a descriptive style, or a mixture of the two. In any event, they are essentially normative, since they seek to provide a set of principles as a guide to setting and interpreting accounting standards. Such guidance, however, does not necessarily preclude a standard being issued that, for compelling pragmatic reasons, departs from a principle set out in the applicable conceptual framework. In relation to the existing framework, explain the importance of a regulatory/accounting concepts framework and the key issues that such a framework should address considering what it addresses currently

.(12 marks)

b) According to both Hendriksen (1977) and McDonald (1972) the development of an accounting theory should be possible. McDonald argues that a theory must have three elements:

1. Encoding of phenomena to symbolic representation
2. Manipulation or combination according to rules
3. Translation back to real-world phenomena.

Required: Does the three elements that McDonald states necessary for a theory to exist in accounting? **(9 marks)**

c.) Assets may result from various types of past transactions and other past events. Normally, these are purchase transactions and the events associated with production, but they may include donation (for example, by way of a government grant) or discovery (asin the case of mineral deposits). Expected future transactions or events do not give rise to assets; for example, a binding contract by an enterprise to purchase inventory does not cause the inventory in question to meet the definition of an asset of that enterprise until the purchase transaction that fulfills the contract has occurred. While expenditure is a common way to acquire or generate an asset, expenditure undertaken with a view to generating future economic benefits may fail to result in an asset, for example, if the intended economic benefits cannot be expected or are not controlled by the enterprise.Consider whether each of the following are assets, giving reasons for your answers.

1.A heap of rusty metal worth ksh.1,000,000 as scrap but costing ksh.2,000,000 to transport to the scrapdealer. **(3 marks)**

2. A municipal or trades union social or welfare centre outside the factory thatsubstantially improves the overall working conditions of a firm's employees. **(3 marks)**

3 The benefits derived from next year's sales. **(3 marks)**

SECTION B(CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

a) IAS 21 "The effects of changes in Foreign Exchange Rates" recommends that an entity translates foreign currency items/net investment into its functional currency and reports the effects of such translation.

Required:

(i) Define and briefly explain the functional currency concept. (2 marks)

(ii) Briefly outline the translation requirements for reporting a foreign currency business transaction and for reporting the results of an investment in a foreign operation.

(3 marks)

b)On April 2011, ABC Ltd .opened a branch in Zambia, a foreign country whose currency is the zuma (zm), to sell an assortment of dolls.The branch manager was authorized to purchase local dolls for resale, but it was expected that the major proportion of the sales would be the dolls supplied by the head office in Kenya.

On 31 March 2012, the trial balance of the head office and branch were as follows;

	Trial balance as at 31 March 2012			
	Head Office		**Branch**	
	Ksh	**Ksh**	**Ksh**	**Ksh**
Share capital		50,000,000		
Reserves		20,000,000		
Profit and loss a/c		12,000,000		
Premises at cost	45,000,000			
Fixtures and fittings	16,000,000		94,500,000	
Provision for dep. fixtures & fittings		6,400,000		
Stock 1 April 2011	14,050,000			
Debtors	17,550,000		35,100,000	
Creditors		4,500,000		12,336,000
Bank balance	9,200,000		27,084,000	

Cash in hand	980,000		8,598,000	
Sales		101,090,000		277,233,000
Purchases	65,630,000		48,807,000	
Goods sent to branch		13,520,000		
Goods received from head office			156,500,000	
Branch current account	15,900,000			
Head office current account				129,350,000
Branch stock adjustment account		3,380,000		
Administration expenses	19,250,000		28,514,600	
Distribution expenses	7,330,000		19,815,400	
	210,890,000	**210,890,000**	**418,919,000**	**418,919,000**

Additional information

1. Stock on hand as at 31 March 2012 was

Stock on hand as at 31 March 2012 was	
Head office	Ksh.28,500,000
Branch;	
From head office	Zm.12,000,000
From local purchases	Zm.9,775,000

2. Goods were invoiced by head office to branch at cost plus 23%. The branch sold the goods at invoiced price plus 50%. Goods sent to branch from head office were converted at affixed rate of 10 Zumas to 1 Ksh.
3. On 31 March 2012,goods in transit from head office to branch were at an invoiced value of Ksh.1,250,000
4. A remittance of Zm 5,800,000 from branch to head office was in transit 0n 31 march 2012.The remittance was converted at Zm.12.5 to Ksh.1
5. The fixtures and fittings were acquired when the exchange rate was Zm 10.5 to Ksh.1 on 1 July 2011.
6. Depreciation of the head office and branch fixtures and fittings is to be provided at the rate of 10% per annum on cost. A full year's depreciation should be provided branch fixtures and fittings.
7. The branch manager was to be allowed a commission of 2% on the sales of dolls supplied by the head office.
8. Rates of exchange at other dates were;

	Zumus		Ksh.
1 June 2011	10	to	1
31 March 2012	12	to	1

Average for the year	11	to	1
Date of purchase of closing stock	11.5	to	1

Required

(a). Income statement in columnar form for the head office, the branch and the combined business for the year ended 31 March 2012. (7 marks)

(b). Statement of Financial position of the office, branch and the combined business as at 31 March 2012 (8 marks)

(Total: 20 marks)

QUESTION THREE

Human resources are considered as important assets and are different from the physical assets. Physical assets do not have feelings and emotions, whereas human assets are subjected to various types of feelings and emotions. In the same way, unlike physical assets human assets never get depreciated. Therefore, the valuations of human resources along with other assets are also required in order to find out the total cost of an organization.

Flamhoitz defines HRA as 'accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization'. As a Chief Accountant at the County Government of Bungoma, account for the methodology of human resources accounting that is applicable and appropriate to enable the county achieve its core mandate.

(20 marks)

QUESTION FOUR

Naitex Ltd., prepares its financial statements on both historical cost accounting basis and inflation adjusted accounting basis using current purchasing power method. Given below are the trading, profit and loss accounts for the year ended 31 March 2011 and comparative balance sheets of the company for the years ended 31 March 2010 and 31 March 2011.

Profit and loss account for the year ended 31 March 2011 (Historical cost accounting basis)		
	Sh. '000'	**Sh. '000'**
Sales		90,000
Opening stock	30,000	
Purchases	65,000	
	95,000	

Closing stock	35,000	
Cost of sales		60,000
Gross profit		30,000
Expenses:		
Loan interest	500	
Salaries and wages	3,500	
Depreciation	5,000	
Other expenses	1,000	10,000
Profit before tax		20,000
Taxation		8,000
Profit after tax		12,000
Dividends paid:		
Ordinary	2,500	
Preference	1,000	
Dividends proposed:		
Ordinary	2,500	
Preference	1,000	7,000
Retained profits for the year		5,000
Balance sheets as at 31 March (Historical cost basis)		
	2011 Sh.'000'	**2010 Sh.'000'**
Fixed assets	70,000	58,000
Stocks	35,000	30,000
Debtors	40,000	34,000
Prepayments	2,000	1,000
Bank balance	5,000	8,000
	152,000	131,000
Ordinary share capital	70,000	60,000
10% preference share capital	20,000	20,000
Reserves	23,000	18,000
	113,000	98,000
Loan	18,000	20,000
Trade creditors	17,200	12,500
Accruals	300	500
Proposed dividend	3,500	-
	152,000	131,000

The following additional information is provided:

1. Out of the total sales of the year, Sh.30, 000,000 was a special order and was made in mid-January 2011. Purchases for the special order were made in the same period. Other sales and purchases were made uniformly throughout the year. Gross profit on all sales was $33^1/_3$ % of sales value.
2. Closing stocks represented an average of two months purchases.

3. Loan interest was paid in two equal installments on 15 September 2010 and 15 March 2011.
4. Salaries and wages and other expenses paid in cash accrued evenly throughout the year.
5. Tax was paid in two equal installments on 30 September 2010 and 31 March 2011.
6. Interim dividend was paid on 30 September 2010.
7. The business purchased fixed assets worth Sh.17, 000,000 on 15 October 2010. These assets were depreciated by Sh.1, 000,000 in the year ended 31 March 2001. Other fixed assets were purchased when the retail price index was 120.
8. The company issued 500,000 ordinary shares of Sh.20 each, at par on 15 June 2010. The remaining ordinary shares were issued at the inception of the company when the retail price index was 100.
9. Retail price indices moved uniformly throughout the two years.
10. Retail price indices prevailing for some selected dates were as follows:

	Year ended 31 March	
	2011	2010
Mid–January	144	120
Mid-March	148	124
Mid-June	154	130
Mid-September	160	136
Mid-December	166	142
Average index	137	-
Index on 31 March	149	125
Mid-October	-	138

Required:

Using the current purchasing power accounting method and rounding the workings to the nearest thousand:

(a). Determine the revenue reserves as at 31 March 2010. (5 marks)

(b). Calculate the gain or loss on holding monetary items. (5 marks)

(c). Prepare the trading, profit and loss account for the year ended 31 March 2011 and the balance sheet as at that date. (10 marks)

(Total: 20 marks)