



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021 / 2022 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
SUPPLEMENTARY EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE
COURSE CODE: ADVANCED FINANCIAL ACCOUNTING
COURSE TITLE: BCA 321 / BCA319

DATE: 19TH JANUARY, 2022

TIME: 11.00AM - 1.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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SECTION A (COMPULSORY)

QUESTION ONE

In order for anybody of standards to be able to be rigorously interpreted and applied, there must be a sufficient level of implementation guidance. The IAS standards frequently provide less implementation guidance than U.S. GAAP. Instead, they concentrate on statements of principles, an approach that is similar to some national standards outside the United States. Also, the IASC has formatted its standards by using bold ('black') lettering to emphasize basic requirements of the standards while placing explanatory text in normal ('gray') lettering. We believe that the requirements of an IAS standard are not limited to the black lettered sections and that compliance with both black and gray letter sections of IAS standards should be regarded as necessary. Additionally, the IAS has published a basis for conclusions for only two of its standards. The basis for conclusion in U.S. standards often is useful in promoting consistent understanding of the standard setter's reasoning and conclusions.

Comparability may be achieved with respect to less detailed standards through common interpretation and practice by companies and auditors who are familiar with the standards. Earlier standard-setting organizations in the United States, such as the Accounting Principles Board, followed this approach and developed less detailed standards. Our experience with that approach was not favorable, however, and led to the current organization and approach to standard-setting under the FASB

High quality financial reporting cannot be guaranteed solely by developing accounting standards with the strongest theoretical bases; financial reporting may be weak if conceptually sound standards are not rigorously interpreted and applied. If accounting standards are to satisfy the objective of having similar transactions and events accounted for in similar ways, preparers must recognize their responsibility to apply these standards in a way that is faithful to both the requirements and intent of the standards, and auditors and regulators around the world must insist on rigorous interpretation and application of those standards. Otherwise, the comparability and transparency that are the objectives of common standards will be eroded.

In this respect, it is difficult to evaluate the effectiveness of certain of the IAS standards at this stage. First, there is little direct use of IAS standards in developed capital markets. Second, even where IAS standards are used directly in those markets, a number of the new or revised standards may not have been implemented yet. For that reason, financial statements currently prepared using IAS standards may not reflect the improvements achieved by the IAS in the core standards project. Therefore, preparers, users and regulators may not have significant implementation experience with respect to those standards to assist us in our evaluation of the quality of the standards as they are applied.

- a) Is the level of guidance provided in IAS standards sufficient to result in a rigorous and consistent application? Do the IAS standards provide sufficient guidance to ensure consistent,

comparable and transparent reporting of similar transactions by different enterprises? Why or why not? (10 marks)

b) Are there mechanisms or structures in place that will promote consistent interpretations of the IAS standards where those standards do not provide explicit implementation guidance? Please provide specific examples. (8 marks)

c) In your experience with current IAS standards, what application and interpretation practice issues have you identified? Are these issues that have been addressed by new or revised standards issued in the core standards project? (4 marks)

d) Is there any laid down procedures applied the development of current IAS standards? If so, which procedures are they and is there any weakness of such procedure?(8 marks)

SECTION B (CHOOSE ANY TWO QUESTION)

QUESTION TWO

a) Briefly account for IAS 7- Presentation of the Cash Flow Statement (5 marks)

b) 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:

1. 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.
2. 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 preceding 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.
3. 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 Trading and Profit and Loss Account for the Mombasa Branch for the year ended 31 May 2011 (15 marks)

(Total: 20 marks)

QUESTION THREE

- a) Briefly explain the objective of IAS 10- Events After the Balance Sheet Date (5 marks)
- b) Faida Commercial Bank Ltd. offered 200,000 ordinary shares for sale to the public at a par value of Sh.25 each on 1 April 2014, payable as follows:

- On application, Sh.5 due on 15 April 2014
- On allotment, Sh.5 due on 30 April 2014
- On first call, Sh.7.50 due three months after allotment
- On second and final call, Sh.7.50 due three months after the first call.

Additional information:

1. The company received applications for 530,000 shares on the due dates. Applications for 30,000 shares were rejected and the application money refunded. The rest of the applicants were allotted shares on a prorata basis.
2. One month after allotment, one shareholder of 2,000 shares remitted Sh.25, 000 as calls in advance. The rest of the calls were received on the due dates except for money due on second and final call for Sh.8, 000 shares which were paid three months late.
3. The surplus application monies were treated as calls in advance.
4. The company's articles of association provided for charging of interest on calls in arrears at 10% per annum.

Required:

Ledger accounts to record the above transactions.

(20 marks)

QUESTION FOUR

- a) briefly justify the coming into existence of IAS 2 – inventories accounting (5 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		1,000,000
Fixtures and fittings		180,000		140,000
Motor vehicles		<u>300,000</u>		<u>180,000</u>
		1,220,000		1,320,000
Current assets:				
Stock	830,000		660,000	
Investments	80,000		-	
Debtors	680,000		580,000	
Bank balance	<u>340,000</u>		-	
	1,930,000		1,240,000	
Current liabilities:				
Creditors	(520,000)		(600,000)	
Bank overdraft	-	<u>1,410,000</u>	<u>(90,000)</u>	<u>550,000</u>

Net assets		<u>2,630,000</u>		<u>1,870,000</u>
Capital accounts:				
Ali		1,500,000	Cheche	1,100,000
Bali		<u>1,050,000</u>	Dunga	<u>700,000</u>
		2,550,000		1,800,000
Current accounts:				
Ali	30,000		Cheche 30,000	
Bali	<u>50,000</u>	<u>80,000</u>	Dunga <u>40,000</u>	<u>70,000</u>
		<u>2,630,000</u>		<u>1,870,000</u>

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 $2\frac{1}{2}\%$ was to be made in respect of creditors.
2. ABC and D Enterprises were taken over the old partnerships' assets at the following values:

	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. (5 marks)

(Total: 20 marks)