(*Knowledge for Development*)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION

COURSE CODE: ADVANCED FINANCIAL ACCOUNTING

COURSE TITLE: BCA 321

DATE: 25TH MAY,2022 **TIME:9.00AM - 11.00AM**

INSTRUCTIONS TO CANDIDATES

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

2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

QUESTION ONE (COMPULSORY)

a) The Interpretations of International Accounting Standards issued by the International Financial Reporting Interpretations Committee (IFRIC) (formerly, the "Standing Interpretations Committee" (SIC)) do not have the same status as IAS, but, in accordance with IAS 1, Presentation of Financial Statements, paragraph 11, *"financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the Standing Interpretations committee".* In these circumstances, the SEC staff has required adjustments to the financial statements in order to comply with IASC standards. IFRS 1 grants limited exemptions from these requirements in specified areas where the cost of complying would be likely to exceed the benefits to users of financial statements.

i) Discuss the requirement for an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements (5 marks)

ii) Outline the exemptions from these requirements in specified areas of financial statement for an organization (5 marks)

b) What do you understand by 'Current Purchasing Power Technique' (3 marks)

c) A Company held share in ABC Ltd company which it bought for ksh. 210000 in 2019 when an index of the general level of prices stood at ksh. 145. At the end of 2020, the market price of the share was Ksh. 181000, and the index 135., At the end of 2021, the market price of the share was 200 000 and the index 129.9.

i) Determine the CPP value of the shares at the end of 2020 and 2021 (12 marks)

ii) Under CPP accounting, what gain or loss would be shown in respect of the shares during 2021 (5 marks)

QUESTION TWO

2a) Briefly explain the treatment of the following in respect to IAS 37 (4 marks)

i) Provisions

ii) Contingent liabilities

2b) A, B and C have carried on partnership for several years, sharing profits and losses equally after allowing for annual salaries as follows:

	Sh.
A	1,300,000
B	700,000
C	800,000

They decided to convert the partnership into limited company; ABC Ltd .as at 30TH November 2021, the following terms:

1. Goodwill to be valued at Sh.10, 400,000
2. Other assets to be valued as follows:

	Shs.
Freehold property	37,000,000
Furniture and fittings	1,600,000
Motor Vehicles	1,200,000

3. Each partner is becoming director of the company at the same salary as that previously allowed in the partnership.
4. B's loan is to be converted into share capital at par.
5. Shares are to be issued to each partner at par in respect of the amounts of their equity holdings at 30 November 2021.
6. The financial year of partnership ends on 30 May .No action has been taken to carry out the terms of conversion of partnership into the limited company in the books of accounts. On 31 May 2021, the trial balance showed the following position:

	Sh '000'	Sh '000'
Capital accounts at 1 June 2021		
A		28,000
B		11,000
C		8,000
Stock -31 May 2021	14,100	

Cost of sales	46,100	
Sales		82,000
Administrative expenses	6,000	
Selling expenses	3,000	
Accounting &Audit expense	1,200	
Incorporation expenses	600	
Drawings:		
Kamau	1,500	
Maneno	900	
Rotino	900	
Freehold property at cost	25,800	
Furniture and fittings at cost	6,000	
Accumulated depreciation		3,600
Debtors and Creditors	35,200	7,200
Prepayments and Accruals	600	300
Loan from Maneno(10% interest per annum)		9,000
Motor Vehicles at cost	12,000	
Accumulated depreciation		3,600
Bank balance		1,200
	153,900	**153900**

Additional information;

i. The sales during the second half of the year were 50% of the total sales though the gross profit percentage remained the same throughout the year.

ii. The selling expenses were proportional to the sales for each period. All the expenses were incurred evenly throughout the year.

iii. Salary drawings were made evenly. Drawing made after incorporation were to be treated as director's salaries.

iv. There were no purchases or sales of fixed assets during the year .Depreciation is to be provided on cost as follows;

Furniture and fittings	10% per annum
Motor vehicles	20% per annum

v. No dividends are paid or proposed but it is decided to write off the incorporation expenses and also Sh.3,100, 100 of the goodwill.

Required

(a) Income statement for ABC Ltd. for the year ended 31 December 2021 (6 marks)
(b) Calculation showing current account to each partner. (4 marks)
(c) Statement of Financial Position as at 31 December 2021. (6 marks)

(Total: 20 marks)

QUESTION THREE

3a) Briefly justify the existence of IAS 22 Business combination (revised 2004) (5 marks)

3b) Ouru Ltd. offered 200,000 ordinary shares for sale to the public at a par value of Sh.20 each on 1 June 2021, payable as follows:

- On application, Sh.4 due on 15 June 2021
- On allotment, Sh.4 due on 30 June 2021
- On first call, Sh.5.50 due three months after allotment
- On second and final call, Sh.5.50 due three months after the first call.

Additional information:

1. The company received applications for 603,000 shares on the due dates. Applications for 35,000 shares were rejected and the application money refunded. The rest of the applicants were allotted shares on a prorate basis.
2. One month after allotment, one shareholder of 1,000 shares remitted Sh.20, 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.6, 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. (15 marks) **(20 marks)**

QUESTION FOUR

4a) Asset and liability management is an important part of an insurer's risk management. IFRS 4 underlines this by requiring disclosures about it. Justify (5 marks)

4b) Monda Agrovet Ltd at its head office located in Nakuru. It operates an overseas outlet at Arusha which maintains its own books of account.

The bags are transferred to the branch at head office cost plus 20% mark-up. All sales are at a uniform margin of 25%.

The trial balances extracted from the books o both the head office and the Arusha branch as at 30th June 2021 were as follows:

	Head office		Arusha branch	
	Ksh. '000'	Ksh. '000'	Ush. '000'	Ush. '000'
Cash at bank	5,000		125,000	
Accounts receivable	46,000		264,000	
Inventory – 30 June 2021	50,000		81,000	
Plant and equipment – net book value	140,000			
Accounts payable		44,000		63,000
Share capital		192,000		
Motor vehicles – net book value	50,000			
Branch and head office current accounts	15,000			97,000
Sales		390,000		1,600,000
Cost of goods sold	280,000		920,000	
Operating expenses	70,000		380,000	
Goods sent to branch	____	30,000	____	____
	656,000	656,000	1,760,000	1,760,000

Additional Information

1. Goods sent to Arusha branch by the head office which had cost the head office Ksh.81, 000 were received by the branch on 15 July 2021. Included in the closing stock of Arusha branch were goods received from head office valued at Tz.22, 400,000. The balance of the