(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMNT

COURSE CODE:FINANCIAL REPORTING II

COURSE TITLE: BBA 321

DATE: 29TH AUGUST,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

KIBU observes ZERO tolerance to examination cheating

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SECTION A (COMPULSORY)

QUESTION ONE

Statutory accounting framework

International convergence of accounting standards first arose in the late 1950s in response to post World War II economic integration and related increases in cross- border capital flows. Initial efforts focused on harmonization-reducing differences among the accounting principles used in major capital markets around the world. By the 1990s, the notion of harmonization was replaced by the concept ofconvergence-the development of a unified set of high-quality, international accounting standards that would be used in at least all major capital markets. The International Accounting Standards Committee (IASC), formed in 1973, was the first international standards-setting body. It began releasing International Accounting Standards (IAS) in that same year. The primary purpose of these standards was to unify the financial reporting requirements of European firms. In 2001, the International Accounting Standards Board (IASB) was established to develop International Financial Reporting Standards (IFRS). A year later, European Union (EU) member states committed to requiring IFRS for all listed corporations in their jurisdictions effective year 2005 (EC, 2002). Over time, the majority of developed countries have adopted IFRS requirements as a means of standardizing accounting practices internationally (PWC, 2011). The main holdout among developed economies is the United States, which continues to practice its own set of Generally Accepted Accounting Principles (GAAP).IFRS was set to be the accounting standard in Kenya in 1998 by the Council of the Institute of Certified Public Accountants of Kenya (ICPAK) effective for financial statement covering periods beginning 1 January 1999. IFRS, including IFRS for small and medium enterprises (SMEs) are the Kenya national accounting standards. Companies whose securities are not publicly traded may choose the IFRS for SMEs or full IFRS. Requirements to use IFRS have been incorporated into Regulations issued by various governmental regulatory bodies, including the Central Bank of Kenya's prudential guidelines and regulatory guidelines issued by the Insurance Regulatory Authority of Kenya (IRA), the Capital Markets Authority of Kenya (CMA), and the Retirement Benefits Authority. Also IFRS are required by the Nairobi Securities Exchange (NSE) listing rules. One of the main arguments in favor of IFRSs is that it helps eliminate barriers to cross-border trading in securities by ensuring that company accounts across jurisdictions are more reliable and transparent and that they can be more easily compared. This in turn increases market efficiency and reduces the cost of raising capital for companies, ultimately improving competitiveness and helping boost growth.
Arguments against IFRS are its complexity, especially as regards the small and medium enterprises. Rather than reducing administrative burdens, IFRSs increase them, and increase the cost of preparation and audit of individual company accounts. The extensive disclosure requirements are also seen as potentially creating a competitive disadvantage vis-à-vis companies that follow less stringent rules. Opponents have also questioned the actual benefits that IFRS bring to companies operating only locally and having a limited number of shareholders.

The Companies Act 2015, which repealed the revised 2009 version of the Companies Act Cap 486 of 1948, governs the corporate financial reporting, including accounting and auditing, requirements in Kenya. The Act states that all companies are required to prepare and present

financial statements and provides requirements for the preparation, publication, audit and inspection of financial statements. The Act defines prescribed financial accounting standards as statements of standard accounting practice issued by a professional body or bodies in accounting and finance recognized by law in Kenya.

Required:

In your own opinion, discuss whether the International Accounting standards:

a) Address the prevailing Accounting problems in the 21st century **(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. **(8 marks)**
d) At this time whether they have enough expertise globally 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?**(5 marks)**
e) Recognition can impair or enhance users' 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) Appraise the rationale for IAS 2 inventory accounting (4 marks)

2 b) ABCLimitedCompanyhasitsHeadOfficeinDelhi and a Branch in Bombay where a separate set of books issued.Thefollowingarethevitalbalancesextractedon31stDecember,2012:

Head Office Trial Balance

Particulars	`	`
Share Capital(Authorised:10,000EquitySharesof` 100each)		
Issued:8,000EquityShares		800,000
ProfitandLossAccount1.1.12Inter		25,310
imDividendpaid-August2012	30,000	
General Reserve		100,000
Fixed Assets	530,000	
Stock	222,470	
Debtors and Creditors	50,500	21,900
Profitfor2012		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	
Profitfor2012		31,700
Stock	50,460	
DebtorsandCreditor	19,100	10,400
s CashBalance	6,550	
HeadOfficeCurrentAccount		1,29,010
	171,110	**171,110**

ThedifferencebetweenthebalancesoftheCurrentAccountsinthetwosetsofbooksisaccountedfor asfollows:

(a) CashremittedbytheBranchon31st Dec 2012,butreceivedbytheH.O.on1st Jan.2013:` ksh.3000.

(b) StockstointransitfromHeadOfficeandchargedtotheBranchbytheHeadOfficebutnotcreditedtoHeadOffice in the BranchbooksastheBranchManagerdeclinedtoadmitanyliability-ksh1,700.

Required:
Prepare:

Branch Current Account in the Head Office books after incorporating Branch trial Balance through Journal. Thereafter prepare the company's statement of financial position on31st December, 2012. **(16 marks)**

QUESTION THREE

3a) briefly justify the existences of IAS 41 **(4marks)**

b) Radhi Tea Company Limited has an authorized share capital of Sh. 10,000,000 ordinary shares of Sh.10 each. The shares were issued at par as follows:

Payable on application Sh.1.00

Payable on allotment Sh.3.00

Payable on first call Sh.4.00

Payable on second call Sh.2.00

Applications were received for 1,630,000 shares.

It was decide to refund applicants monies on 130,000 shares and to allot all the shares on the basis of two for every three applied for.

The excess application monies received from the successful applicants is not to be refunded but is to be applied to reduce the amount payable on allotment.

The calls were made and paid in full with the exception of one member of one member holding 5,000 shares who paid neither the first nor the second call and another member who did not pay the second call on 1,000 shares. After requisite action by the directors the shares were forfeited. They were later reissued at a price of Sh.8 per share.

Required:

The necessary ledger accounts to record these transactions **(16 marks)**

QUESTION FOUR

a) Discuss the Accounting standard 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%)	50,000	50,000	Monetary Assets	30,000	60,000
Capital	100,000	100,000	Inventories	30,000	20,000
Retained earnings		10,000	2012,3000 units		
Accumulated depreciation		10,000	2013, 2000 units		
			Land	40,000	40,000
			Plant & Equipment	50,000	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)**

(Total: 20 marks)

QUESTION FIVE

a) Briefly justify the coming into existence of IAS 29 hyperinflation economies (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		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	Dunga40,000	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:

	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)