



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ADVANCED FINANCIAL ACCOUNTING**

**COURSE TITLE: BCA 321**

**DATE: 1<sup>ST</sup> SEPTEMBER, 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) (30 marks)**

a) Martin is your classmate and is wondering on the statement made during accounting meeting on “Minister of finance and planning argued that Bill of Exchange, can be understood as a written negotiable instrument, that carries an unconditional order to pay a specified sum of money to a designated person or the holder of the instrument, as directed in the instrument by the maker. The bill of exchange is either payable on demand, or after a specified term. In a business transaction, when the goods are sold on credit to the buyer, the seller can make the bill and send it to the buyer for acceptance, which contains the details such as name and address of the seller and buyer, amount of bill, maturity date, signature, and so forth”. It can be an instrument which a creditor draws upon his debtor. In reference to this statements;

- i) Justify to your classmate whether is true or false (2 marks)
- ii) If it is true, describe the major characteristics for instrument to qualify (3 marks)

b) i. Illustrate to your understanding by change in price level as used in advanced financial accounting (2 marks)

ii The following information was recorded in Marks Ltd during the year ending 31<sup>st</sup> December 2021.

Year	Cost of an asset	Life in years	Depreciate rate
2016	50, 110	10	5%
2019	86 000	20	10
2021	140,000	8	20%

The general price index is as shown;

Year	Price index	Cost of asset (ksh)
2000	109	89100
2016	220	100900
2019	301	151400
2021	451	231310

**Required:**the amount of depreciation basis (8 marks)



c) Kia Limited authorized 1,000,000 ordinary shares and decide to offer 800,000 ordinary shares for sale to the public at a par value of Sh.10 each on 1 March 2021, payable as follows:

- On application, Sh.3 due on 15 April 2021
- On allotment, Sh.3.5 due on 30 May 2021
- On first call, Sh.4.50 due two months after allotment
- On second and final call, Sh.1.50 due two months after the first call.

**Additional information:**

1. The company received applications for 500,000 shares on the due dates. Applications for 25,000 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 800 shares remitted Sh.10, 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.2000 shares which were paid two months late.
3. The company's articles of association provided for charging of interest on calls in arrears at 5% per annum.

**Required:**

Ledger accounts to record the above transactions. (15 marks)(30 marks)

**QUESTION TWO**

2a) Some argued that International Accounting Standards is differently applied by different countries. The USA mostly applied GAAP as issued by the International Financial Reporting Interpretations Committee (IFRIC) unlike having the same position as IAS 36, but, in accordance with IAS 37, Presentation of Financial Statements, paragraph 11, "financial statements should be described by complying with International Accounting Standards with all the requirements applicable Standard to each applicable interpretation of financial statements". In these circumstances, the SEC workforce has required adjustments to the financial reporting standards. In this case, the requirements are as per the specified areas where the expenses of complying might exceed the income to different users of financial statements among countries.

- i) Discuss the role of accounting standards for an entity to comply with each financial statements during the year (4 marks)
- ii) Differentiate the main requirement for IAS 36 different from IAS 37 (4 marks)

2 b) K, M and R have carried on partnership for some years, sharing profits and losses equally 3:2:1 after allowing for annual salaries in Kenya shillings as follows:

K	1,200,000
M	500,000
R	700,000

They decided to admit Tom (T) the partnership into company; KMRT Ltd which they may decide to convert it to limited company any time as at 31<sup>st</sup> December 2021 with the following terms as per the deed:

	Shs.
Freehold property	3,000,000
Furniture and fittings	600,000
Motor Vehicles	200,000
<b>Stock</b>	<b>12067</b>

1. Freehold to be valued at Sh. 3400,000
2. The shares are to be issued to each partner at par in respect of the amounts of their equity holdings at 31<sup>st</sup> December 2021.
3. The financial year of partnership ends on 31<sup>st</sup> December 2021, 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<sup>st</sup> December 2021, the trial balance showed the following position as shown

	Sh '000'	Sh '000'
Sales		96,100
Administrative expenses	16,100	
Accounting & Audit expense	26,100	
Drawings and capital		
Kamau	4,000	4000
Maneno	1,100	3500
Rotino	1,300	1100
Freehold property at cost	9000	
Motor vehicle	<b>8600</b>	
Depreciation	5,800	
Debtors and Creditors	2,000	4500
Bank balance	35,200	



	109600	109600
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**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 administrative expenses were proportional to the sales for each period. All the expenses were incurred evenly throughout the year. Salary paid to Maneno 1200
- iii. Interest on drawings were made evenly where Kamau 100, and Rotino 210 with interest on capital made 5% and 6% respectively. 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 Freehold property at cost 15% and motor vehicle at cost 5%.
- v. No dividends are paid or proposed but it is decided to write off the incorporation expenses and also 3% of the goodwill.

**Required:**

- i) Prepare Income statement for the year ended 31 December 2021 (8 marks)
- ii) Profit and loss appropriation account (4 marks)

**QUESTION THREE**

3a) Write notes

- i) Goods sent to branch at invoice (2 marks)
- ii) Proforma of branch account (2 marks)
- iii) Debtor system (2 marks)
- iv) Dependent branch account (2 marks)

3b) Chari has given the following particulars relation to Salem branch for the year ending 31.12.2020.

Stock (1.1.2020)	18,010
Debtors (1.1.2020)	5,200
Petty cash	120
Goods sent to branch during 2020	36,000
Goods returned by branch during 2020	860
Cash sales	18,000
Credit sales	26,200
Sales returns too branch	150
Bad debts	30
Discount allowed to customers	150

Expenses of branch met by H.O	2,100
Table and chair purchased by the branch	600
Cash collected from customers	31,000
Stock (31.12.2020)	7,500
Petty cash (31.12.2020)	160

Required. prepare the branch A/c in the books of head office

(12 marks)

**QUESTION FOUR**

4a) Explain why Asset and liability management act as an important role of an insurance company that underlines the requiring disclosures by IFRS 4. (6 marks)

4b) i) Discuss the major role of "Departmental Accounting" that is followed to obtain department wise results in an organization (4 marks).

ii) From the following particulars given by Packets and Pen department in T Ltd. Package department and Supply department, for the year ended 31st December 2021.

Detail	Amount ksh	Detail	Amount ksh
Opening stock;— packetss	2600	Packing expense packet	450
Pens supply	2500		
Raw material	18800	Depreciation; Equipment-	1600
		Building	1200
Store consumed	4500	Sales; packages	45000
		Pens	10000
Wages;     -packers	2800	Closing stock; packets	6000
-Pen recorders	1500	Pen	3000
Advertisement	780	Office expense	2600

Addition Information:

a. Packets are made out of end bits of raw materials used by pens Department. The value of such material used during the year by packets Department was ksh. 900.

b. Packets making does not require any equipment.

c. Only 1/5 of the total area of the building was occupied by packet Department

Prepare a Departmental Trading and profit & loss account for their two departments (10 Marks)

**Question Five**

- a) Explain various type of share capital under different circumstances given at par, premium over subscription, under subscription and at discount (8 marks)

The company presents a classified record of all receipts on account of shares rendered and capital received by residents and payments made by them

on account of shares received from the capital transferred to non-residents or foreigners. Describe the differences for accounting treatment on under-subscription and over subscription of shares among companies