



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ADVANCED FINANCIAL ACCOUNTING

COURSE TITLE: BCA 32 1

DATE: 2ND AUGUST, 2021 TIME: 2.00-4.00 P.M

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBUCO observes ZERO tolerance to examination cheating

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**SECTION A (COMPULSORY)
QUESTION ONE**

In order for a set of accounting standards to be fully operational, the standard-setter must support reasonably consistent application of its standards. A standard-setter's responsibility for ensuring consistent application of its standards includes providing an effective mechanism for identifying and addressing interpretive questions in an expeditious fashion.

The IASC began addressing interpretive issues in 1997 with the creation of its Standing Interpretations Committee (SIC) to provide resolution of interpretive issues arising in the application of the IASC standards that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance.

The IASC has published a restructuring plan which is expected to result in an independent Board whose members are selected based on technical expertise, with oversight provided by an independent set of Trustees. The restructuring also is expected to integrate the roles of the IASC and those of national standard-setters.

At this time, we do not anticipate adopting a process-oriented approach (like our approach to the FASB) to IASC standards. Instead, we expect to continue a product-oriented approach, assessing each IASC standard after its completion. Nonetheless, the quality of the standard-setter has relevance to our consideration of the IASC standards, particularly with respect to implementation and interpretation questions. Since many of the IASC standards are new or relatively new, application issues may arise that require the response of an effective and high quality standard setter. Additionally, the quality of the standard-setter has critical implications for the development and acceptance of future standards.

While the Commission has the authority to establish accounting standards, historically we have looked to the private sector for leadership in establishing and improving accounting standards to be used by public companies. As a result, the Commission has recognized the FASB as the private sector body whose standards it considers to have substantial authoritative support. This partnership with the private sector facilitates input into the accounting standard-setting process from all stakeholders in U.S. capital markets, including financial statement preparers, auditors and users, as well as regulators. Our willingness to look to the private sector, however, has been with the understanding that we will, as necessary, supplement, override or otherwise amend private sector accounting standards.

The SEC staff is involved with the application of accounting standards on a daily basis through its review and comment process. This review process, administered by the Division of Corporation Finance, allows the staff to review and comment on a company's application of GAAP and related SEC disclosure requirements. The SEC staff would have the same significant interpretive and enforcement role in the application of the IASC standards when those standards are used to prepare financial statements included in SEC filings. To perform that role, our staff would need to develop expertise regarding the IASC standards.

However, other jurisdictions accepting IASC standards may develop conflicting interpretations or may accept applications of IASC standards that would not be acceptable in the United States

and other jurisdictions, in part, because of lack of expertise, resources, or even the authority to question a company's application of accounting standards. We are seeking to identify ways to reduce the development of diverging interpretations of IASC standards.

Effective financial reporting begins with management, which is responsible for implementing and applying properly a comprehensive body of accounting principles. Rigorous and consistent application of accounting standards also depends on implementation efforts of the standard-setter, auditors and regulators. There are concerns that current IASC standards may not be rigorously and consistently applied. For example, a recent study authored by the former IASC secretary-general identifies non-compliance with IASC standards by a number of the 125 companies surveyed. It also cites examples of auditors who failed to identify properly a lack of compliance with IASC requirements in their reports on an issuer's financial statement.

In addition, the SEC staff has noted inconsistent applications of IAS 22, *Business Combinations*. The staff has received a number of requests to accept characterizations of business combinations as "unitings of interests" despite IAS 22's clear intention that uniting of interest accounting be used only in rare and limited circumstances. In addition, the SEC staff, based on its review of filings involving foreign private issuers using IASC standards, has identified a number of situations involving not only inconsistent application of the standards but also misapplication of the standards. In these circumstances, the SEC staff has required adjustments to the financial statements in order to comply with IASC standards.

QUESTIONS

Q.1 Would further recognition of the IASC standards impair or enhance our ability to take effective enforcement action against financial reporting violations and fraud involving foreign companies and their auditors? If so, how? **(5 marks)**

Q.2 According to your understanding on effectiveness of the regulation of accounting profession in reducing inconsistent interpretations and applications of IAS standards, Has the regulator been effective at identifying areas where interpretive guidance is necessary? Has the regulator provided useful interpretations in a timely fashion? Are there any additional steps the IASC should take in this respect? If so, what are they? **(5 marks)**

Q.5 How can the risk of any conflicting practices and interpretations in the application of the IASC standards and the resulting need for preparers and users to adjust for those differences be mitigated without affecting the rigorous implementation of the standards? **(5 marks)**

Q.2 Should we require use of U.S. GAAP for specialized industry issues in the primary financial statements or permit use of home country standards with reconciliation to U.S. GAAP? Which approach would produce the most meaningful primary financial statements? Is the approach of having the host country specify treatment for topics not addressed by the core standards a workable approach? Is there a better approach? **(5 marks)**

Q.1 Do the core standards provide a sufficiently comprehensive accounting framework to provide a basis to address the fundamental accounting issues that are encountered in a broad range of industries and a variety of transactions without the need to look to other accounting regimes? Why or why not? (5 marks)

Q.3 Are there any additional topics that need to be addressed in order to provide a comprehensive set of standards? (5marks)

(Total: 30 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

2a) Briefly explain the rationale for IAS 12 Income Taxes (4 marks)

2b) Kamau Maneno and Rotino have carried on partnership for several years, sharing profits and losses equally after allowing for annual salaries as follows:

	Sh.
Kamau	1,500,000
Maneno	900,000
Rotino	900,000

They decided to convert the partnership into limited company; Kamaro Ltd.as at 30 November 2010, the following terms:

1. Goodwill to be valued at Sh.13, 500,000
2. Other assets to be valued as follows:

	Shs.
Freehold property	27,000,000
Furniture and fittings	2,400,000
Motor Vehicles	6,000,000

3. Each partner is becoming director of the company at the same salary as that previously allowed in the partnership.
1. Maneno'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 2010.
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 2012, the trial balance showed the following position:

	Sh '000'	Sh '000'
Capital accounts at 1 June 2001		
Kamau		18,000
Maneno		9,000
Rotino		6,000
Stock -31 May 2002	14,400	
Cost of sales	36,000	
Sales		60,000
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	9,000	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	_____	<u>1,200</u>
	<u>117,900</u>	<u>117,900</u>

Additional information;

- i. The sales during the second half of the year were 60% 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.3,500,000 of the goodwill.

Required

- (a) Income statement for Kamaro Ltd. for the six months ended 31 May 2012 (6 marks)
- (b) Calculation showing the value of shares to be issued to each partner. (4 marks)
- (c) Statement of Financial Position as at 31 May 2012. (6 marks)

(Total: 20 marks)

QUESTION THREE

3a) Briefly justify the existence of IAS 11 Construction Contracts (revised 1993) (4marks)

3b) Kibabii Ltd. offered 200,000 ordinary shares for sale to the public at a par value of Sh.25 each on 1 April 2015, payable as follows:

- On application, Sh.5 due on 15 April 2015
- On allotment, Sh.5 due on 30 April 2015

- 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 prorate 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. (16 marks) (20 marks)

QUESTION FOUR

4a) Does IAS 20, Accounting for Government Grants and Disclosure of Government Assistance reflect any solution to the Kenya's emerging issues in national Government? Justify (3 marks)

4b) Beta East Africa Ltd. manufactures tubeless tyres at its head office plant located in Nairobi. It operates an overseas outlet at Kampala which maintains its own books of account. The tyres are transferred to the branch at head office cost plus 25% mark-up. All sales are at a uniform margin of 50%.

The trial balances extracted from the books of both the head office and the Kampala branch as at 30 June 2015 were as follows:

	Head office		Kampala branch	
	Ksh. '000'	Ksh. '000'	Ush. '000'	Ush. '000'
Cash at bank	6,000		130,000	
Accounts receivable	45,000		260,000	
Inventory – 30 June 2015	40,000		80,000	
Plant and equipment – net book value	150,000			

Accounts payable		44,000		65,000
Share capital		192,000		
Motor vehicles – net book value	50,000			
Branch and head office current accounts	15,000			95,000
Sales		390,000		1,600,000
Cost of goods sold	280,000		930,000	
Operating expenses	70,000		360,000	
Goods sent to branch	—	<u>30,000</u>	—	—
	<u>656,000</u>	<u>656,000</u>	<u>1,760,000</u>	<u>1,760,000</u>

Additional Information

1. Goods sent to Kampala branch by the head office which had cost the head office Ksh.80, 000 were received by the branch on 15 July 2015. Included in the closing stock of Kampala branch were goods received from head office valued at Ush.23, 600,000. The balance of the inventory at the Kampala branch was purchased locally in Uganda when the exchange rate was Ush.12 to Ksh.1.
2. A customer of the head office, whose operations are situated in Kampala, made a settlement of Ush.420, 000,000 to Kampala branch on 15 June 2015. This transaction was properly recorded by the Kampala branch but the head office had not been notified by the time the trial balance was extracted on 30 June 2015.
3. Depreciation is to be provided on plant and motor vehicles using the reducing balance method at 10% and 20% respectively per annum.
4. The head office expenses include Ksh.3, 000,000 that related to Kampala branch. The head office allocates 1/3 of the depreciation expenses on plant and equipment to the branch.
5. The rates of exchange prevailing on various dated were:

Date	Rate
1 July 2014	9 Ush./Ksh.
15 June 2015	12 Ush./Ksh.

30 June 2015	13 Ush./Ksh.
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Average rate for the year was 10 Ush./1Ksh. Goods transferred to Kampala branch were translated at the rate of 10 Ush./1Ksh.

Required:

- a) Branch trial balance in Kenya shillings after the necessary adjustments. (5 marks)
- b) Trading profit and loss account (in Kenya shillings) for the head office, branch and the combined business, in columnar format, for the year ended 30 June 2015. (10 marks)
- c) Combined balance sheet (in Kenya Shillings) as at 30 June 2015. (5 marks)

(Total: 20 marks)