



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

SUPPLIMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMNT

COURSE CODE: FINANCIAL REPORTING 11

COURSE TITLE: BBA 321

DATE: 24TH NOVEMBER, 2022
1.00PM

TIME: 11.00AM -

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 8 Printed Pages. Please Turn Over.

QUESTION ONE

For many years, many accounting professions in the world have attempted to formulate a method of preparing financial statements that takes account of the effects of price increases (inflation). It seems that no proposed method of reflecting the effects of changing prices has gained acceptance. Advice from the International Accounting Standards Committee is that no form of accounting for price changes should be made compulsory, but companies are encouraged to present such information. There have been two main methods put forward for reporting the effects of price changes. One method is based on the movements in general price inflation (as measured by the Retail Price Index – RPI) and is referred to as Current Purchasing Power accounting (CPP); the other method is based on specific price changes of goods and is generally referred to as Current Cost Accounting (CCA).

Required:

- Explain the limitations of (pure) historic cost accounts when used as a basis for assessing the performance of an enterprise. You should give an example of how each of three different user groups may be misled by such information. (10 marks)
 - Describe the advantages and criticisms of CPP accounting. (10 marks)
 - Name and explain various sources of Accounting Authorities and their roles (10 marks)
- (Total:30 marks)**

QUESTION TWO

Jamila traders has a head office in Nanyuki and an automation branch in Thika. The trial balances of head office and the branch as at 30 September 2004 were as follows:

	Head office		Thika branch	
	Sh.	Sh.	Sh.	Sh.
Buildings (at cost)	3,500,000			
Goods sent to branch		6,482,205		
Goods received from head office			6,387,330	

Accounts receivable	764,700		535,800	
Remittance from branch		7,548,750		
Remittances to head office			7,620,000	
Cash at bank	397,800		289,250	
Stock (at cost)	2,595,000			
Stock (at mark up)			1,552,500	
Sales		13,000,000		9,202,200
Capital (1 October 2003)		6,040,925		
Bank overdraft				250,000
Furniture and fittings	779,500		230,500	
Purchases	13,626,600			
Rent and rates	395,400		197,250	
Salaries and wages	851,700		487,500	
Current accounts	8,931,555			8,836,680
General expenses	1,887,750		1,258,950	
Accounts payable		1,239,000		270,200
Drawings	783,375			

Provision for unrealised profits	<u> </u>	<u>202,500</u>	<u> </u>	<u> </u>
	<u>34,513,38</u>	<u>34,513,38</u>	<u>18,559,08</u>	<u>18,559,08</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Additional Information:

1. Depreciation on furniture and fittings is to be provided at the rate of 10% per annum using the reducing balance method.
2. A bonus of 10% is payable to the staff at the head office and the branch. The bonus is based on net profits after charging these bonuses.
3. Goods sent to the branch in August 2004 and which had an invoice value of Sh.94,875 were stolen in transit. The insurance company agreed to meet the claim to the extent of only 85% of the cost of the goods.
4. Goods were invoiced to the branch at 15% above cost all sales were at a mark up of 33 1/3% above the cost to head office.
5. No shortages of stock were reported at the head office or the branch.

Required:

Prepare in columnar form for the head office. Thika branch and the combined business.

The income statements for the year ended 30 September 2004. (20 marks)

The combined statement of financial position (10 marks)

QUESTION THREE

- a) Accounting standards improve the quality and uniformity of reporting and introduce a definitive approach to the concept of what is true and fair. List the main advantages and disadvantages of accounting standards.
- b) A decision was recently made by the council of the Institute of Certified Public Accountants of Kenya (ICPAK) to shift to the International Accounting Standards and to phase out Kenyan Accounting Standards. What reasons have persuaded the council to make this change and what benefits are likely to accrue to the accounting profession?

QUESTION FOUR

BZT Ltd. which deals in farm implements, prepares its financial statements using both the historical cost accounting method and the inflation adjusted accounting method.

Provided below are the historical cost accounting comparative balance sheets prepared as at 31 December 2002 and 2003 and the trading profit and loss account for the financial year ended 31 December 2003.

Balance sheet as at December

	2003	2002
	Sh. "000"	Sh. "000"
Assets:		
Non-current assets:		
Buildings	815,000	600,000
Machinery and equipment	<u>200,000</u>	<u>350,000</u>
	<u>1,015,000</u>	<u>950,000</u>
Current assets:		
Stock	420,000	340,000
Debtors	270,000	230,000
Bank balance and cash in hand	<u>210,000</u>	<u>180,000</u>
	<u>900,000</u>	<u>750,000</u>
Total assets.	<u>1,915,000</u>	<u>1,700,000</u>
Equity and liabilities:		
Capital and reserves:	600,000	500,000
Ordinary share capital	300,000	200,000
Share premium	<u>490,000</u>	<u>380,000</u>
Retained profit	<u>1,390,000</u>	<u>1,080,000</u>

Non-current liability:		
10% debentures	<u>300,000</u>	<u>400,000</u>
Current liabilities:		
Trade creditors	185,000	200,000
Proposed dividend	<u>40,000</u>	<u>20,000</u>
	<u>225,000</u>	<u>220,000</u>
Total equity and liabilities	<u>1,915,000</u>	<u>1,700,000</u>

Trading profit and loss account for the year ended 31 December 2003

	Sh. "000"
Sales:	<u>3,600,000</u>
Stock – 1 January 2003	340,000
Purchase	<u>2,780,000</u>
	3,120,000
Less: Stock – 31 December 2003	<u>420,000</u>
Cost of sales	<u>(2,700,000)</u>
Gross profit	<u>900,000</u>
Selling and distribution costs	(215,000)
Administration costs	(180,000)
Depreciation	(185,000)
Debenture interest	<u>(35,000)</u>
	<u>(615,000)</u>
Operating profit	285,000

Profit on disposal of equipment	<u>45,000</u>
Profit before tax	330,000
Tax	<u>(120,000)</u>
Profit after tax	<u>210,000</u>
Dividends: Paid	(60,000)
Proposed	<u>(40,000)</u>
	<u>(100,000)</u>
Retained profit for the year	110,000
Retained profit brought forward	<u>380,000</u>
Retained profit carried forward	<u>490,000</u>

Additional information:

1. Sales, purchases, selling and distribution costs and administration costs occurred evenly during the year ended 31 December 2003.
2. Debenture interest is paid semi-annually on 30 June and 31 December. Debentures amounting to Sh. 100,000,000 were redeemed on 1 July 2003.
3. The company sold equipment with a net value of Sh. 100,000,000 on 30 September 2003 at a profit of Sh. 45,000,000. No depreciation was provided on this equipment for the year ended 31 December 2003.
4. On 31 March 2003, the company purchased a building at Sh. 350,000,000. A full year's depreciation was provided on this newly purchased building at the rate of 10% per annum. Depreciation was provided on the other assets as follows:

	Sh.
Old buildings	100,000,000
Machinery and equipment	50,000,000

5. The company issued new ordinary shares at premium on 31 March 2003. The old shares were issued at the time of incorporation of the company when the general retail price index (RPI) was 100.

6. The closing stocks represent one month's purchases.
7. Tax was paid in two equal instalments on 30 June and 31 December 2003, while interim dividends were paid on 30 September 2003.
8. The general retail price index moved uniformly in the year.
9. Relevant indices were as follows:

	Retail price index
Date of purchase of: Old buildings	105
New building	122
Machinery and equipment including that sold in the year	110
30 November 2002	119.5
31 December 2002	120
31 March 2003	123
30 June 2003	126
30 September 2003	129
30 November 2003	131.5
31 December 2003	132
Average index for the year ended 31 December 2003	126.

Required:

The following financial statements using the current purchasing power accounting method:

- (a) Trading and profit and loss account for the year ended 31 December 2003. (13 marks)
 - (b) Balance sheet as at 31 December 2003. (12 marks)
- (Total: 25 marks)**

QUESTION FIVE

Kenya Caps Limited issued additional 100,000 ordinary shares and 50,000, 8% preference shares on the following terms:

	Payable per share	
	Ordinary	Preference
	Sh.	Sh
Application	2.50	2.50

Allotment (including premium)	3.50	2.00
First call 30 days after allotment	3.00	2.50
Second and final call (60 days)	2.00	2.50

The par values were Sh.10 and Sh.9 for the ordinary and preference shares respectively. By 1 August 1993, applications had been received for 200,000 ordinary shares and 40,000 preference shares. The directors rejected the application for 80,000 ordinary shares and refunded the monies on 15 August 1993, and the remainder allotted five shares for every six shares applied for. Surplus application monies were carried forward to allotment.

All allotment took place on 20 August 1993 and the due amounts were received by 31 August 1993. The first and second calls were received by the due dates except for 3,000 ordinary shares which the directors declared forfeited on 20 November 1993. All the forfeited shares were reissued as fully paid to another shareholder on 30 November 1993 for Sh.9 per share.

Assume that the number of shares outstanding prior to this additional issue amounted to:

- Ordinary - 300,000 shares of Sh.10 par
- 50,000 7% preference shares of Sh.7 par

All these shares had been issued at par.

Required:

- (a) Journal entries including cash necessary to record the share transactions. (13 marks)
- (b) Prepare the share capital section of the Balance Sheet as at 31 December 1993. (5 marks)
- (c) What is the importance of issuing bonus shares (4 marks)

(Total: 22 marks)