



(Knowledge for Development)

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**THIRD YEAR SECOND SEMESTER**  
**SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ADVANCED FINANCIAL ACCOUNTING**

**COURSE TITLE: BCA 321**

**DATE: 25<sup>TH</sup> NOVEMBER, 2022    TIME: 2.00PM- 4.00PM**

**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

### Case study: Commission and accounting standard applications

Accounting activities requires better understanding of all operation of the organization. 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. Commission has the authority to establish accounting standards; historically we have looked to the private sector for leadership in establishing and improving accounting standards in most organizations around the world.

Application of accounting standards is on daily basis through its review and comment process by stated by IASC standards staff review process. Accounting processes are administered by the Division of Corporation governance allows the accountant 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 standards. We are seeking to identify ways to reduce the development of diverging interpretations of IASC standards. Though, other authority accepting IASC standards may develop contradictory interpretations or may recognize applications of IASC standards that would not be acceptable in the United States and other regulators, in part for the reason that lack of know-how, resources, or yet the ability to question a company's purpose of accounting standards is established over the years.

### QUESTIONS

- a) How can these form the core accounting standards to provide comprehensive understanding accounting framework among organizations and a variety of financial statements preparations for entities (4 marks)
- b) Analyze the requirement of GAAP in financial statements for companies around the current accounting regime (4 marks)
- c) Outline the approaches applicable to produce meaningful comprehensive financial statements while treatment of transactions is maintained in record. (4 marks)



d) Describe the major themes that need to be addressed in order to provide a comprehensive set of standards in asset and liabilities (8 marks)

e) Explain the reasons for understanding experience of accounting profession regardless of international accounting standards committee interpretations (10 marks)

## QUESTION TWO

- a) In considering changes in our current financial reporting requirements, we will consider the effects of possible changes on the accounting policy and regulations of our enforcement program to provide an effective deterrent against financial reporting violations by foreign issuers, their corporate officials and their auditors. Explain the major 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 (5 marks)
- b) Discuss the statement of IAS 37 Presentation of the disclosures of provisions, liabilities over Income Statement or statement of financial position (8 marks)
- c) Bua started in Kisii town, but now present in all the major towns in Kenya. The accounts of all the branches are maintained in the books of the head office, now situated in Kisii. The figures below that refer to goods are stated at selling prices, following figures relate to transactions carried out by the Nakuru branch in the year ended 31 dec 2021:

	Sh.'000'
Opening stock during the period	6,089
Goods received from head office	201,721
Goods received from Nakuru branch	560
Goods sent to Nyahururu branch	670
Goods returned to Nyahururu branch by credit customer (normal goods)	288
Goods returned to Nakuru branch by Kisii credit customer (approved by Head office: All these goods had been marked up by 15%)	342
Goods returned by Kisii branch to Head office	1,453
Cash sales	63,333
Cash stolen from Nakuru branch on 12 December 2020	230
Goods stolen from Nakuru branch on 12 December 2020	900
Credit sales (mainly to boutiques in beach hotels)	61,888
	12,000
	10,000

### Other information:

- Customer demand has been high during the year; the opening stock were goods with a normal selling price of Sh. 781,100 but which had been marked up by a further 10% of this price. The normal selling price of the goods is head office cost plus 70% of cost. All these



marked-up goods were sold in the year. Goods with a normal selling price of Sh. 1,101,200 had been marked up by an additional 13%. Three quarters of these goods had been sold by 31 Dec 2021.

**Required:**

- i) Nakuru Branch Stock Account and the Nakuru Branch Mark-up Account in the books of the Head office, (8 marks)
- ii) The Memorandum Trading and Profit and Loss Account for the Nakuru Branch for the year ended 31 Dec 2021 (12 marks)

**QUESTION THREE**

- a) Briefly discuss the objective of IAS 12- deferred tax asset or liability for income statement (8 marks)
- b) Safaricom Ltd. offered 100,000 ordinary shares for sale to the public at a par value of Sh.30 each on 1 April 2020, payable as follows:

- On application, Sh.8 due on 15 April 2020
- On allotment, Sh.6 due on 30 April 2020
- On first call, Sh.6.50 due three months after allotment
- On second and final call, Sh.9.50 due three months after the first call.

**Other information:**

1. Safaricom company received applications for 630,000 shares on the due dates. Applications for 60,000 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 22,100 shares remitted Sh.15, 150 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.6,900 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 5% per annum.

**Required:**

Ledger accounts to record the above transactions.

(20 marks)

**QUESTION FOUR**

- a) Briefly describe the requirement into existence of IAS 22 and IAS 36 – Business combination accounting and impairments of assets (8 marks)
- b) Mwani and Monica are in partnership trading as T and X Retailers. Similarly, Paul and Peter are in partnership trading as Y and Z Traders. It was mutually agreed that as at 1 January 2021, the partnership businesses be amalgamated into one firm, TXY and Z Enterprises. The profit and loss sharing ratios of the partners both in the old and new partnership were as follows:

	Mwangi	Monica	Paul	peter
Old firms	2	4	3	3
New firm	3	5	4	2

As at 31 December 2021, the balance sheets of the firms were as follows:

	T and X Retailers		Y and Z Traders	
	Sh.	Sh.	Sh.	Sh.
<b>Non- current assets:</b>				
Property		180,000		140000
Fixtures and fittings		170,000		1000,000
Motor vehicles		<u>500,000</u>		<u>180,000</u>
		1,420,000		1,320,000
<b>Current assets:</b>				
Stock	840,000		680,000	
Investments	60,000		-	
Debtors	<u>680,000</u>		<u>580,000</u>	
Bank balance	<u>240,000</u>		<u>-</u>	
	1,830,000		1,260,000	
<b>Current liabilities:</b>				
Creditors	(420,000)		(400,000)	
Bank overdraft	<u>-</u>	<u>1,410,000</u>	<u>(90,000)</u>	<u>550,000</u>
Net assets		<u>2,630,000</u>		<u>1,870,000</u>
<b>Capital accounts:</b>				
Mwangi		1,500,000	Paul	2,100,000
Monica		<u>1,050,000</u>	Peter	<u>700,000</u>
		3,550,000		2,800,000



<b>Current accounts:</b>				
Mwangi	30,000		peter 30,000	
Monica	<u>50,000</u>	<u>80,000</u>	paul <u>50,000</u>	<u>80,000</u>
		<u>3,630,000</u>		<u>2,880,000</u>

The agreement to amalgamate the firms contained the following provisions:

1. Provision for bad and doubtful debts at the rate of 3% was to be made in respect of debtors and a provision for discount receivable at the rate of 2% was to be made in respect of creditors.
2. TX and Y Z Enterprises were taken over the old partnerships' assets at the following values:

	<b>T and X Retailers</b>	<b>Y and Z Traders</b>
	<b>Sh.</b>	<b>Sh.</b>
Stock	639,000	845,000
Motor vehicles	130,000	280,000
Fixtures and fittings	1,000,000	-
Property	160,000	-

3. The property and fixtures of Y and Z traders were not to be taken over by TXY and Z Enterprises. These assets were sold for Sh. 3,550,000 on 1 January 2021.
4. Monica was to take over his firm's investments at value of Sh.56, 001
5. The total capital of TXY and Z Enterprises was to be Sh. 6,200,000. 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:

T and X Retailers	-	Sh. 450,000
Y and Z Traders	-	Sh. 630,000

**Required:**

- (a) The relevant accounts to close off the books of T and X Retailers and Y and Z Traders. (12 marks)
- (b) The Balance sheet as that period (8 marks)