

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF COMMERCE (FINANCE OPTION)**

BCOM 437: CORPORATE FINANCIAL REPORTING**STREAMS: BCOM Y4S2****TIME: 2 HOURS****DAY/DATE: THURSDAY 23/09/2021****8.30 A.M – 10.30 A.M.****INSTRUCTIONS:**

- Answer question ONE and any other TWO questions.

QUESTION ONE

Jeddy Limited is a company quoted at the securities exchange. The following trial balance was extracted from the books of the company as at 31 October 2018:

	Sh. 'million'	Sh. 'million'
Ordinary share capital (Sh. 10 each)		150
8% Preference share capital (Sh. 10 each)		50
Revaluation reserve-property, plant and equipment		25
Share premium		50
Retained profits as at 31 October 2013		166.75
Intangible assets	107.75	
Property, plant and equipment	300	
Accumulated depreciation as at 1 November 2013		62.25
Trade receivables and trade payables	159	48.75
Bank overdraft		25.5
Inventory as at 1 November 2013	163	
Purchases	380	
Cash in hand	2.5	
Sales		763
Administrative expenses	79	
Selling and distribution expenses	58.5	
Legal and professional expenses	27	
Allowance for doubtful debts (1 November 2013)		3

Financial assets at fair value	62.5	
Deferred tax		10
Instalment tax paid	15	
	<u>2,708.5</u>	<u>2,708.5</u>

Additional information

- The intangible assets are being amortised over 5 years with the expense to be shown under cost of sales.
- Property, plant and equipment is made up of the following:

Asset	Cost/valuation Sh. "million"	Accumulated depreciation Sh. "million"
Land at cost	125	-
Buildings	37.5	7.5
Plant and equipment	75	34.25
Furniture and fixtures	25	8
Motor vehicles	<u>37.5</u>	<u>12.5</u>
	<u>300</u>	<u>62.25</u>

Depreciation is charged as follows:

- Buildings 2% on cost (included with administrative expenses). Plant and equipment 8% on cost (included with cost of sales)
- Furniture and fixtures 10% on cost (included with administrative expenses). Motor vehicles 20% on the reducing balance charged as follows: 25% administration expenses and 75% selling and distribution expenses.
- Sh. 5 million should be transferred from the revaluation reserve to retained profits.
- Allowance for doubtful debts is to be increased to Sh. 9 million.
- The financial assets at fair value are held for the long-term. Their market value as at 31 October 2014 is Sh. 65 million.
- Inventory as at 31 October 2014 is valued at Sh. 203 million
- The company issued 10,000 ordinary shares whose par value Sh 10 at Sh 15 each.

Required

The following statements for Zeddy Limited in a format suitable for publication:

- Income statement for the year ended 31 October 2014. (15 marks)
- Statement of changes in equity for the year ended 31 October 2014. (5 marks)
- Statement of financial position as at 31 October 2014. (10 marks)

QUESTION TWO

- (a) Explain the treatment of dividends received and receivable out of post-acquisition profits. (4 marks)
- (b) The following statement of financial position of h Ltd and its subsidiary S Ltd is as follows:

	H Ltd	S Ltd
	'000'	'000'
Noncurrent assets	300	203
Investments in S Ltd (120,000 shares @Sh. 1 each	230	
Current assets	75	101
Total assets	605	304
Ordinary share capital @Sh. 1 each	500	200
P&L A/C: As at 31/12/2018	64	51
Profit for the year 2019	41	13
Proposed dividend for 2019	0	40
Total equity and liabilities	<u>605</u>	<u>304</u>

Total equity and liabilities

Additional information:

H Ltd bought the shares on 31/12/2018. The proposed dividends of S Ltd have not yet been brought into the accounts of H Ltd.

Required:

Prepare a consolidated statement of financial position as at 31st December 2019. (16 marks)

QUESTION THREE

- (a) At the end of 2020, its first year in operation, ABC Ltd reported Ksh. 5,000,000 taxable income and Kshs. 3,900,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 80% of the deductible temporary difference will be realized. The corporate tax rate for the year 2020 was 30% and no charge has been enacted for future years.

Required:

Determine the value of deferred tax asset/liability to be reported. (10 marks)

- (b) Explain 5 international Financial Reporting Standards and their requirements. (10 marks)

QUESTION FOUR

- (a) Explain three professional ethical issues in the practice of accounting. (3 marks)

- (b) Explain why a regulatory framework is needed also including the advantages and disadvantages of IFRS over a national regulatory framework. (7 marks)
- (c) Describe the IASB's standard-setting process. (10 marks)
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