CHUKA UNIVERSITY

SUPPLEMENTARY/ SPECIAL EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 437: CORPORATE FINANCIAL REPORTING

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: TUESDAY 02/02/2021 **11.30 AM – 1.30 PM**

INSTRUCTIONS:

Answer Question One and any other two.

Question One

a) Evaluate the importance of conceptual framework (8 marks)

b) Explain any four users of financial reports clearly outlining their information needs (6marks)

c) Explain the meaning of deferred tax (2 mark)

d) Bango Limited has a deferred tax liability of Sh. 105 million as at 1 June 2010. During the year ended 31 May 2011, the company had the following items with regard to estimating deferred tax:

1. The carrying amount of property, plant and equipment as at 31 May 2011 was Sh. 980 million. This included some buildings which were revalued upwards by Sh. 50 million at 31 May 2010 which has a remaining useful life of 10 years at that date. The company's accounting policy is to treat revaluation surpluses as realized on disposal of the revalued assets. The tax base of property, plant and equipment as at 31 May 2011 was Sh. 640 million.

2. Deferred development expenditure amounted to Sh. 45 million at year end (Sh. 40 million as at 31 May 2010). Sh. 10 million of additional development expenditure was incurred during the year and the remaining difference between 2010 and 2011 figures relates to development expenditure amortized for products that have started

being commercially produced. All development expenditure is allowed for tax purposes

3. Included in current assets is an amount of Sh. 40 million due to respect of some patent royalties on one of the company's older products which is now being produced by other companies. Patent royalties are taxed only when received.
4. The company's tax rate is 30%.

Required:
i)The deferred tax balance as at 31 May 2011 and the relevant journal entry. (10 marks)

ii)The directors of Bango Limited have proposed that deferred tax should be discounted and also provided on the share of post acquisition profits in its subsidiary and associate companies. Comment on these proposals. (4 marks)

Question Two

a) Highlight three benefits of professional ethics in the practice of accounting (6marks)

b) Kes Co acquired 80% of the share capital of Der Co on 1 June 2015. The summarised draft statements of profit or loss for Kes Co and Der Co for the year ended 31 May 2016 are shown below:

	Kes Co	**DerCo**
	'000	**'000**
Revenue	8,400	3,200
Cost of sales	(4,600)	(1,700)
Gross profit	3,800	1,500
Operating expenses	(2,200)	(960)
Profit b tax	1,600	540
Tax	(600)	(140)
Profit for the year	1,000	400

During the year Kes Co sold goods costing Ksh.1,000,000 to Der Co for Kshs.1,500,000. At 31 May 20X6, 30% of these goods remained in Der Co's inventory.

Required:

(a) **Prepare the Kes group consolidated statement of profit or loss for the year ended 31 May 2016.** (14 marks)

Question Three

2 Malright, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 2017 and requires your assistance. The following trial balance has been extracted from the general ledger

Account	**Dr**	**Cr**
	'000	**'000**
Buildings at cost	740	
Buildings accumulated depreciation, 1 November 2016		60
Plant at cost	220	
Plant accumulated depreciation, 1 November 2016		110
Bank balance		70
Revenue		1,800
Net purchases	1,140	
Inventory at 1 November 2016	160	
Cash	20	
Trade payables		250
Trade receivables	320	
Administrative expenses	325	
Allowance for receivables at 1 November 2016		10
Retained earnings at 1 November 2016		130
Equity shares, $1		415
Share premium account		80
	2,925	2,925

The following additional information is also available:

– The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.

– Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.

– Closing inventory has been counted and is valued at kshs.75,000.

– An invoice of Kshs.15,000 for energy costs relating to the quarter ended 30 November 2017 was received on 2 December 2017. Energy costs are included in administrative expenses.

Required:

Prepare the statement of comprehensive income and the statement of financial position of Malright Co as at 31 October 2017. (20 marks)

Question Four

a) Explain various methods of foreign currency translation (6 Marks)

b) Arusha Ltd established a branch in Arusha Tanzania on 1.1.2012, when Kshs 1 = TShs 15. PPE costing Kshs 800,000 were purchased on that day. In addition, cash of KShs 500,000 was sent to Arusha on 1.1.2012, together with goods which had cost Majani Ltd KShs 1Million. The Arusha branch sells HO goods and also goods purchased in Tanzania.

Arusha Branch Trial balance as at 31.12.2012

	Dr TSH'000	**Cr. TSH'000**
PPE	12,000	
Sales		48,000
Goods from head office	15,000	
Purchases in Tanzania	15,000	
Expenses	18,000	
Receivables and Payables	2,000	1,000
Cash at bank	2,000	
Remittances to Kenya	19,500	
Head office current account		34,500
	83,500	83,500

Additional information:
1) Inventory as at 31 December 2012 was valued at Tsh 6 mil ion, being goods from HO.
2) Depreciation is to be charged at 10% on the cost of fixed assets.
3) Accrued expenses amounted to Tsh 1.5 mil ion.
4) Prepaid expenses amounted to Tsh 1.8 mil ion.
5) There was no closing inventory of goods purchased in Tanzania.
6) The remittance was made on 1 Oct 2002 and translated into Ksh 1,650,000.
7) Exchange rates during the year were:

31 Dec 2012: Ksh 1 =Tsh 10
1 Oct 2012:Ksh 1 =Tsh 11.82 (Approx)
Average for the year =Ksh 1 = Tsh 12

Required:

a) Translate the trial balance to Kenya Shil ings using functional currency Method of translation. **(7 Marks)**

b) Income statements for the year to 31 December 2012 and balance sheets as at that date in Kenya shil ings using functional currency Method translation **(7 marks)**
