CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 437: CORPORATE FINANCIAL REPORTING

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 15/04/2020 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a) Describe eight functional importance of financial reporting regulations [8 marks]

(b) At the end of 2018, its first year of operations, the Mwashumbe Corporation reported kshs. 4,500,000 taxable income and kshs 3800,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 75% of the deductible temporary difference will be realized. The tax rate for 2018 is 30%, and no change has been enacted for future years.

Required: Determine the value of deferred tax asset/liability to be reported [6 marks]

(c) H Ltd acquired 80% of the share capital of K ltd two years ago, when the reserves of K ltd stood at kshs 125,000. H ltd paid initial cash consideration of kshs 1 million.

Below are the statements of financial position of H ltd and Kltd as at 31 December 2014:

	H ltd	**K ltd**
	Ksh 000	Ksh 000
Investment in K ltd at cost	1,000	
Property, plant & equipment	5,500	1,500
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

At acquisition the fair values of K ltd plant exceed its book value by kshs. 200,000. The fair value of the 20% non-controlling interest was kshs. 380,000

Required:

Prepare the consolidated statement of financial position as at 31 December 2014

[16 marks]

QUESTION TWO

Kim ltd operates a consultancy service to small business traders and the following trial balance was extracted from her books on 31st Dec 2018

	Ksh (000)	Ksh (000)

Income from clients		32,500
Commissions from other sources		800
Discount received		150
Stationery	2,100	
Wages	7,600	
Equipment	4,500	
Vehicles	6,500	
Rent and rates	2,350	
Vehicle expenses	2,000	
Light and heat	800	
Insurance	850	
Telephone	280	
Sundry expenses	175	
Directors fee	11,200	
Debtors	760	
Creditors		650
Bank overdraft		250
Cash in hand	175	
Ordinary capital		4,920
	39,290	39,290

(a) At 31 Dec 2018 there is an unpaid telephone bill of ksh 25,000 and an unpaid electricity bill of ksh 54,000

(b) Business rates prepaid at 31 Dec 2018 are ksh 110,000

(c) On 31 Dec 2018 there is an unused stock of stationery valued at ksh 120,000

(d) Depreciate equipment and vehicles at 15% per annum

(e) Make a provision of bad debts at 5%

Required:

(i) Statement of comprehensive income [12 marks]

(ii) Statement of financial position [8 marks]

QUESTION THREE

(a) T & G ltd has head office at Nairobi and branch at Mumbai (India). Mumbai branch furnishes you with its trial balance as on 31st March, 2021 and the additional information given thereafter:

	Dr. Rupees in Thousands	Cr. Rupees in Thousands

Stock on 1st April, 2011	300	-
Purchases and sales	800	1200
Sundry debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Sundry charges	240	-
Computers	420	-
Bank balance	-	1620
Nairobi office a/c	3360	3360

Additional information:

(i) Computers were acquired from a remittance of ksh 60,000 received from Nairobi head office and paid to the suppliers. Depreciate computers at 60% for the year

(ii) Unsold stock of Mumbai branch was worth Rs 4 20,000 on 31st March 2012

(iii) The rates of exchange may be taken as

- (I) On 1.4.2011 @ Rs 4 per ksh 1
- (II) On 31.3.2012 @ Rs 7.4 per ksh 1
- (III) Average exchange rate for the year @ Rs 4.1 per ksh 1
- (IV) Conversion in ksh shall be made up to two decimal accuracy

Required:

You are asked to prepare in ksh the revenue statement for the year ended 31st March, 2012 and the balance sheet on that date of Mumbai branch as would appear in the books of Nairobi head office of T & G ltd [16 marks]

(b) Describe two methods of foreign currency translation [4 marks]

QUESTION FOUR

(a) Explain four reasons for corporate mergers and acquisition [4 marks]

(b) On January, 1, 2015, Parent company acquired 80% of the common stock of subsidiary company for kshs 4,800,000. On this date, subsidiary had total owners' equity of ksh 4,000,000. Any excess of cost over book value is attributable to goodwill, which is to be amortized over the maximum period, permitted. During 2015 and 2016, parent has appropriately accounted for its investment in subsidiary using the simple equity method.

On January 1, 2016, subsidiary held merchandise acquired from parent for ksh. 200,000. During 2016, parent sold merchandise to subsidiary for ksh 800,000 of which one hold is held by parent on December 31, 2016. Parents usual gross profit of affiliated sales is 40%. On December 31,2016, subsidiary still owes parent kshs. 120,000 for merchandise acquired in December.

Required:

Compute the goodwill, equity and stock values to be reported in the consolidated financial statements for the year ended December 31, 2016 [10 marks]

(c) Describe the three headers for a cash flow statement according to IAS 7 [6 marks]
