CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 437: CORPORATE FINANCIAL REPORTING

STREAMS: BCOM (ODEL) **TIME: 2 HOURS**

DAY/DATE: THURSDAY 07/08/2025 **8.30A.M. –10.30 A.M**

INSTRUCTIONS

Answer question **ONE** (compulsory) and any other **TWO** questions.

QUESTION ONE

(a) Discuss the various ethical issues in financial reporting (5 marks)

(b) The following trial balance was extracted from the books of Exide Ltd. as at 30 Jun 2018.

	Sh"000"	Sh"000"
Revenue		14,800
Cost of sales	10,200	
Distribution costs	1,080	
Administrative expense	1,460	
Land	10,500	
Building: Cost	8,000	
Acc. Depreciation (1 Jul 2017)		2,130
Plant and Equipment: Cost	12,800	
Acc. Depreciation (1 Jul 2017)		2,480
Ordinary shares Sh.40 each (I Jul 2017)		10,000
Share premium		3,000
Retained earnings		9,630
10% debentures		2,000
	44,040	44,040

Additional information:

a) All depreciation is treated as an administrative expense and is provided on buildings and plant and equipment at 2% on straight line and 20% on reducing balance basis respectively.

b) The debenture interest for the year is to be accrued as at 30th June 2018.

c) The estimated corporation tax for the year was estimated at Sh.1 million.

d) The directors propose to pay the ordinary shareholders a final dividend of Sh.1 per share for the year ended 30 June 2018

Required:

Statement of comprehensive Income, Statement of financial position and statement of changes in equity for the year ended 30 June 2018. (25 marks)

QUESTION TWO

Ltd has estimated to make a profit before tax of.10, 000 in the year ended 2021 with an increase of 5% in profit from each year to the next up to 2026.

The company has prepared the capital expenditure budget for six years which revealed the following pattern based on the asset movement schedule proposed.

Year to	**Cost**	**Capital allowances**	**Depreciation**
31 December 2021	6000	1700	1600
31 December 2022	6000	2300	1900
31 December 2023	6000	2100	1900
31 December 2024	6000	1500	2100
31 December2025	6000	2400	2900
31 December 2026	6000	2500	2000

Required: (for each of the six years)

i) Corporation Tax liability (6 marks)

ii) Carrying amount, tax base, taxable temporary difference of the plant and the balance carried down on deferred tax account. (8 marks)

iii) The deferred tax account. (6 marks)

iv)

QUESTION THREE

(a) Describe clearly the IASB'S standard setting process. (12 marks)

(b) Explain why a regulatory framework is needed ad hence give the advantages and disadvantages of IFRS over a national regulatory framework. (8 marks)

QUESTION FOUR

The following balance sheets relate to H Ltd and S Ltd as at 31 December 20X2.

		H Ltd		S Ltd	
Non-Current assets		£	£	£	£
Tangible	Land		100,000.00		50,000.00
	Buildings		150,000.00		80,000.00
	Plant		80,000.00		50,000.00
			330,000.00		180,000.00
Investment in S Ltd			100,000.00		
Current assets					
Inventory		60,000.00		40,000.00	
Accounts receivables		80,000.00		50,000.00	
Cash at bank		25,000.00	165,000.00		90,000.00
TOTAL ASSETS			595,000.00		270,000.00
Ordinary Shares of £1 each			200,000.00		100,000.00
Capital Reserves			100,000.00		40,000.00
Retained profits			90,000.00		50,000.00
			390,000.00		190,000.00

Non-Current liabilities				
10% Loan Stock		100,000.00		20,000.00
Current Liabilities				
Bank Overdraft	-		10,000.00	
Accounts payables	80,000.00		30,000.00	
Proposed dividends	25,000.00	105,000.00	20,000.00	60,000.00
		595,000.00		270,000.00

Additional information

(i)H ltd acquired the investment in S Ltd on 1 Jan 20X0 as follows:

	£
60% Ordinary shares	90,000.00
Loan Stock	10,000.00
	100,000.00

(ii)On the date of acquisition the capital reserves of S ltd amounted to £10,000 and retained profits amounted to £5,000. On the same date the fair values of land and buildings were £10,000 and £20,000 respectively above the carrying amounts. Although no depreciation is provided on land , buildings are depreciated at 5% p.a. on cost.

(iii)Included in the inventory of H Ltd are goods purchased from S Ltd at a selling price of £15,000 to S Ltd. S ltd reported a profit of 50% on cost.

(iv)Included in the plant of S Ltd is plant bought from H Ltd on 01.01.20X1 at a price of £20,000. H Ltd reported a profit of a third on cost. The group provides depreciation on 30% on reducing balance.

(v)H Ltd has not yet accounted for it's share of proposed dividends in s Ltd.

(vi)Included in the accounts payable of H Ltd is an amount of £25,000 due to S Ltd. This amount stood at £28,000 in the books of S Ltd. The difference was due to the following items:

- Cash sent by H Ltd to S Ltd of £1,000.
- -Goods sent to H Ltd by S Ltd but not yet received by H Ltd. Selling price to H Ltd was £1,200.
- Administration fees of £800 charged by H Ltd to S Ltd but not yet recorded by S Ltd.

(vii)Assume that goodwill on consolidation has been impired by 40%.

Required:

Prepare the consolidated balance sheet of H Ltd and it's subsidiary as at 31.12.20X2. (20 marks)
