

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

MBAD 813: ADVANCED FINANCIAL ACCOUNTING

STREAMS: MBAD (ODEL)

TIME: 3 HOURS

DAY/DATE: MONDAY 14/04/2025

8.30 A.M. – 11.30 A.M.

INSTRUCTIONS

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

QUESTION ONE

(a) Describe clearly the IASBS standard setting process. (10 marks)

(b) The following trial balance was extracted from the books of Savanna Ltd as at 30 September 2017:

	Sh. “000”	Sh. “000”
Land	20,100	
Buildings	42,600	
Plant and machinery	216,600	
Accumulated depreciation: Buildings		6,390
Plant and machinery		127,710
Revenue		180,030
Cost of sales	65,670	
Inventory (30 September 2017)	6,450	
Distribution costs	6,690	
Administrative expenses	11,340	
Income tax	8,580	
Investment property at fair value (1 October 2016)	20,340	
Finance cost	7,020	
8% redeemable preference shares		15,000
10% debentures		30,000
Intangible assets	34,200	
Trade receivables and trade payables	8,700	5,340
Ordinary shares (each share Sh.20 par value)		90,000
Share premium		6,000
Retained profit (1 October 2016)		7,620
Deferred tax		8,490
Bank and cash balances	1,350	-
Investment at fair value	<u>26,940</u>	-
	<u>476,580</u>	- <u>476,580</u>

Additional information:

1. The fair value of the investment property on 30 September 2017 was Sh.20,790,000.
2. Information relating to intangible assets was as follows:
 - The intangible assets include:

	Cost SH. “000”	Accumulated amortization Sh. “000”
Development cost on software (it is to be amortized over 5 years)	25,800	15,480
Patent	15,600	-
Research costs	8,280	-

- The patent was acquired on 1 November 2014. It was determined that the patent had an indefinite useful life when it was acquired. However, on 1 October 2016, due to a new

competitor gaining ground on the company's technology, the patent's estimated fair value was established to be Sh.13,500,000 with an estimated useful life of 3 years.

- The research costs were incurred during the year in developing new software which was not successful.

3. The following details are relevant to the property, plant and equipment:

- Buildings are depreciated at 2 ½% per annum on straight line basis.
- Plant and machinery are depreciated on a straight line basis over 10 years.
- Depreciation for the current year has been provided.

- On 30 September 2017, the land and buildings were revalued to Sh.25,500,000 and Sh.45,600,000 respectively. The new values are to be included in the accounts for the financial year ended 30 September 2017.

4. Savanna Ltd is also a sales agent for Majani Ltd and it entitled to a sales commission of 10% on the sales made on behalf of Majani Ltd. The net proceeds obtained from the sales (after deducting the commission) are remitted to majani Ltd. During the financial year ended 30 September 2017, Savanna Ltd sold goods worth Sh.20, 700,000 on behalf of majani Ltd. This amount was included in the sales revenues disclosed in the above trial balance. Savanna Ltd. had not remitted the net sales proceeds to Majani Ltd.

5. Inventory as at 30 September 2017 included partially damaged and slow moving goods. The cost of these goods was Sh.450,000 and they were eventually sold in October 2017 for Sh.128,400.

6. Finance costs comprised:

	Sh. "000"
Interest on debentures	3,000
Interim dividends paid on ordinary shares	4,440
Dividends paid on redeemable preference shares	1,200
Investment income from tax exempt companies	<u>(1,620)</u>
	<u>7,020</u>

7. The corporation tax rate is 30%

8. The balance on the income tax in the trial balance represents the amount paid for the year. The tax expense for the year is estimated to be Sh.7,

770,000 inclusive of an increase in deferred tax liability of Sh.1, 020,000.

Required:

The following statements in a format suitable for publication:

- (a) Comprehensive income statement for the year ended 30 September 2017. (15 marks)
- (b) Statement of changes in equity for the year ended 30 September 2017. (5 marks)
- (c) Statement of financial position as at 30 September 2017. (10 marks)

QUESTION TWO

B 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 December 2025	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)

QUESTION THREE

The following balance sheets relate to H and S Ltd. H acquired 70% of the shares of S sometimes when the reserve of s amounted to sh.200 and paid sh.1550 as the purchase price.

Balance sheets as at 30th June 2001

	H ltd	S ltd
Fixed assets	2450	1800
Investment in S	1550	
Stock	1000	400
Debtors	800	250
Bank	1200	150
	7000	2600
Capitals and Liabilities		
Creditors	1000	500
Share capital	5000	1600
Profit and Loss a/c	1000	500
	7000	2600

Required

Prepare a consolidated balance sheet of S and H as at 30th June, 2001. (20 marks)

QUESTION FOUR

- (a) State and explain five ethical issues in financial reporting. (5 marks)
- (b) Explain why a regulatory framework is needed and hence give the advantages and disadvantages of IFRS over a national regulatory framework. (8 marks)
- (c) Explain clearly the IFRIC due process. (7 marks)

QUESTION FIVE

Baraza group has prepared the following financial statements:

Statement of profit or loss for the year ended 30 April 2015:

	Sh. 'million'	Sh. 'million'
Revenue		25,725
Cost of sales		<u>(17,150)</u>
Gross profit		8,575
Investment income		50
Gain on sale of subsidiary		<u>295</u>
		8,920
Expenses:		
Administration expenses	1,480	
Distribution costs	3,915	
Finance cost	<u>340</u>	<u>(5,735)</u>
Profit before tax		3,185
Income tax expense		<u>(1,010)</u>
Profit for the period		<u>2,175</u>
Attributable to: Parent		2,045
Non-controlling interest		<u>130</u>
		<u>2,175</u>

Statement of financial position as at:

	30 April 2015		30 April 2014	
	Sh. 'million '	Sh. 'million '	Sh. 'million '	Sh. 'million '
Assets:				
Non-current assets:				
Property, plant and equipment		2,730		2,600
Goodwill		120		240
Financial assets at fair value		<u>70</u>		<u>45</u>
		2,920		2,885
Current assets:				
Inventory	3,115		4,210	
Receivables	1,770		2,395	
Cash in hand	<u>355</u>	<u>5,240</u>	<u>295</u>	<u>6,900</u>

Total assets		<u>8,160</u>		<u>9,785</u>
Capital and liabilities:				
Ordinary share capital (Sh.10 par value)		1,500		1,500
Revaluation reserve:				
Property, plant and equipment		750		850
Financial assets		5		-
Retained profits		<u>2,830</u>		<u>1,685</u>
Shareholders' funds attributable to parent		5,085		4,035
Shareholders' funds attributable to non-controlling interest		<u>940</u>		<u>1,360</u>
		<u>6,025</u>		<u>5,395</u>
Non-current liabilities:				
8% loan stock		-		1,000
Obligations under finance lease		200		240
Deferred tax		<u>300</u>		<u>480</u>
		<u>520</u>		<u>1,720</u>
Current liabilities:				
Bank overdraft	30		615	
Payables	1,405		1,890	
Obligations under finance lease	140		120	
Current tax	<u>40</u>	<u>1,615</u>	<u>45</u>	<u>2,670</u>
Total capital and liabilities		<u>8,160</u>		<u>9,785</u>

Additional information;

- During the year, the group sold Salama Limited, a 75% held subsidiary. The following assets and liabilities were available in Salama Ltd. as at the date of sale:

	Sh. 'million'
Property, plant and equipment	660
Inventory	965
Receivables	560
Cash in hand	140
Payables	405
Current tax	20

Salama Limited was acquired several years ago at a total cost of Sh.900 million when the net assets were Sh. 1,000 million. On the date of disposal, the goodwill of Salama Limited was 80% impaired.

2. The group also sold some items of plant during the year at Sh. 125 million. The book value of the items of plant was given as Sh.65 million.
3. The group purchased other items of property, plant and equipment at a total cost of Sh. 1,215 million of which Sh.300 million was by means of finance leases.
4. The current liability figure under finance leases at the end of the year included accrued interest at the beginning of the year of Sh. 10 million and at the end of the year of Sh. 10 million.
5. Depreciation charge includes Sh.45 million for the assets of the subsidiary before disposal.

Required;

Group statement of cash flows for the year ended 30 April 2015. (20 marks)

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