

MURANG'A UNIVERSITY COLLEGE
(A Constituent University of Jomo Kenyatta University of Agriculture and Technology)
SCHOOL OF BUSINESS AND ECONOMICS; COMMERCE DEPARTMENT
BACHELOR OF COMMERCE YEAR 3 SEMESTER 1 SPECIAL/SUPPLEMENTARY
EXAMINATION
HBA2301 : FINANCIAL REPORTING
MAIN CAMPUS

ACADEMIC YEAR: 2014/2015

DATE: DECEMBER, 2014

INSTRUCTIONS TO THE CANDIDATES:

Answer **QUESTION ONE** and **ANY OTHER TWO** questions

TIME: 2 HOURS

QUESTION ONE.

- a) With reference to IAS 17 (on Leases), Explain the critical differences between Hire Purchase and Leasing agreements (9 marks)
- b) The following trial balance has been extracted from the books of Oscar insurance company as at 31st December, 2012:

	Fire	Motor
Net Premiums (CR)	53,816	107,691
Unearned Premiums as at 1 st January, 2012 (CR)	36,018	72,037
Net Commissions paid (DR)	1,733	3,469
Net Claims paid (DR)	27,892	55,781
Net claim outstanding, 1 st January, 2012 (CR)	36,018	72,037
	DR	CR
Management Expenses to be charged to revenue account	77,554	
Management Expenses not to be charged to revenue account	10,000	
Bad and Doubtful debts	2,500	
Treasury Bills	99,550	
Treasury Bonds	5,693	
Motor Vehicle: NBV	500	
Deposits in Banks	237,050	
Equipments: NBV	7,207	
Bank overdraft		8,000
Amounts due to other insurance companies	3,470	
Amounts due from other insurance companies		2,000
Share Capital		60,000
Investment Income		36,000
Other Income		8,782

Revaluation reserve		25,000
Retained Earnings as at 1 st January, 2012		15,000

Additional Information:

1. Management expenses to be charged to revenue account are to be apportioned on the basis of Net premiums.
2. Management made the following estimates as at 31st Dec. 2012.

	Fire sh '000'	Motor sh'000'
Unearned Premiums	20,000	30,000
Net claims outstanding	45,000	79,000

Required:

Revenue Accounts for the year ended 31st December, 2012 (6 Marks)

Statement of Comprehensive Income for year ending 31st December, 2012 (8 Marks)

Statement of Financial position as at 31st Dec, 2012 (7 Marks)

QUESTION TWO

- a) Juhudi Ltd, a manufacturing firm, whose reporting currency is “Ksh” exports its products to an overseas branch whose currency is the “mil”. The trial balances of the head office and the overseas branch as at 31st March 2012 are as follows:

	Head office		Oversees Branch	
	Ksh''000'	Ksh''000'	Mil''000'	Mil''000'
Accounts Receivable/Payable	22,250	23,750	90,000	3,900
Freehold building at cost	35,000		157,500	
Revenue		260,000		1,080,000
Ordinary Share Capital		100,000		
Items sent to Branch		87,500		
Head Office/Branch Current Accounts	150,250			1,260,650
Branch Cost of sales			868,500	
Head office cost of sales (including sent to branch)	146,000			
Provision for depreciation-Machinery		3,750		141,750
Inventory(31 st March,2012)	72,250		28,800	
Administration expenses	39,500		76,500	
Profit & Loss Account		5,000		
Machinery at Cost	15,000		315,000	
Remittances		70,000	680,000	
Bank Balances	11,500		198,000	

Selling and Distribution costs	58,250		72,000	
	550,000	550,000	2,486,300	2,486,300

The prevailing rates of exchange were as follows:

At 1 st April, 2011	10 'Mil'=1 Ksh
At 31 st March 2012	8 'Mil'=1 Ksh
Average for the year	9 'Mil'=1 Ksh
On Purchase of Buildings and Machinery	7 'Mil'=1 Ksh

Required: Branch Translated Trial Balance as at 31st March, 2012 (12 marks)

- b) Explain why accounting for price level changes is important in an environment where historical cost accounting has been widely accepted and well established across the globe. (8 marks)

QUESTION THREE:

ALBERT, BEATRICE, and CAROLINE have been partners sharing profits and losses in the ratios 2:2:1.. ALBERT, the only active partner, died on 30th May, 2012 and the remaining partners decided to cease business immediately. The assets are to be realized, outstanding debts paid, and the remainder to be shared by the partners including the executors of ALBERT's estate in an equitable manner. Distributions of cash are to be made as soon as possible.

A balance sheet prepared as at 31st May, 2012 revealed the following position:

	Cost	Accumulated	Net Book
Non – Current Assets			
Good will	12,500		12,500
Freehold Land and	18,750		18,750
Plant & Machinery	16,625	6,975	9,650
Fixtures & Fittings	3,750	1,625	2,125
Motor Vehicles	4,000	3,000	1,000
	55,625	11,600	44,025
Current Assets:			
Stock		8,000	
Debtors	8,125		
Less: Provision for	750	7,375	
Cash		20	
		15,395	
Current Liabilities:			
Creditors	7,125		
Bank Overdraft	16,045	23,170	(7,775)

			36,250
Capital Accounts:			
ALBERT			12,500
BEATRICE			7,500
CAROLINE			5,000
			25,000
Current Accounts:			
ALBERT		5,000	
BEATRICE		3,750	8,750
Long-Term Liabilities:			
Loan- ALBERT			2,500
			36,250

Additional Information:

1. Premiums, Charged to insurance expense have been paid on life assurance policies for each partner to provide the firm with cash; Sh. 5,000,000 on death of any partner.
2. Assets were sold and monies realised as follows;

2012		Sh"000"
14 th June,	Life policy on ALBERT's life	5,000
	Surrender value: BEATRICE & CAROLINE's	2,500
16 th July,	Free Hold Land & Buildings	25,000
	Debtors(part)	3,750
	Stock (part)	2,500
20 th August,	Plant and Machinery	6,375
	Fixtures and Fittings	1,500
	Motor Vehicles	625
15 th October	Stock(remainders)	4,500
	Debtors (remainders)	5,250

3. Provision was to be made for dissolution expenses of Sh. 300,000
4. Outstanding creditors to be paid as soon as money is available, Less Sh. 125,000 discount Received.
5. Dissolution Expenses amounted to Sh. 250,000

Required:

- i. Statement of cash distribution (9 marks)
- ii. Realisation Account. (4 marks)
- iii. Bank Account (4 marks)
- iv. Capital Accounts (3 marks)

QUESTION FOUR:

- a) AKIBA BORA Retirement Benefit scheme has provided you with the following extracts of the trail balance for the year ended 31st October, 2012:

	Shs'000'	Shs '000'
Accumulated fund ass at 1 st November, 2011		461,560
Accrued Expenses		240
Administrative Expenses	2,840	
Cash and Demand Deposits	23,460	
Change in Market Value of Investments	22,640	
Lump sum Retirement benefits	4,820	
Contributions due in 30 days	4,940	
Normal Contributions by:		
Employer		36,480
Employees		18,240
Transfers in from other schemes		3,150
Individual transfers out to other schemes	1,860	
Investment Income		47,400
Immovable Property	132,320	
Government Securities(Long Term)	263,605	
Members Voluntary Contribution		4,560
Pension	7,640	
Equity Investments: Quoted	87,835	
Equity Investments: Unquoted	19,900	
Unpaid benefits		320
TOTALS:	571,950	571,950

Required:

- i. Statement of changes in net assets for the year ended 31stOctober, 2012 (10 marks)
- ii. Statement of net assets as at 31st October, 2012 (10 marks)

QUESTION FIVE:

- a) Explain the circumstances under which a partnership business may be dissolved. (10 marks)
- b) Write short notes on the following: (10 marks)

Defined Contribution Plans
Unfunded schemes
Re- insurance