



MURANGA UNIVERSITY COLLEGE
(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBA2301

COURSE TITLE: FINANCIAL REPORTING

DATE: 30TH JUNE, 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 6 Printed Pages. Please Turn Over.



QUESTION ONE

Emojong, Barmoi, and Kimani have been partners sharing profits and losses in the ratios 2:2:1.. Emojong, 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 Emojong'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:Prov.doubtfful	(750)	7,375	
Bank		20	
		15,395	
Current Liabilities:			
Creditors	7,125		
Bank Overdraft	16,045	23,170	(7,775)
			36,250
Capital Accounts:			
Emojong			12,500
Barmoi			7,500
Kimani			5,000
			25,000
Current Accounts:			
Emojong		5,000	
Barmoi		3,750	8,750

Long-Term Liabilities:			
Loan- Emojong			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. Cash in hand is transferred to the bank immediately.
3. Assets were sold and monies realised through the bank as follows;

2012		Sh''000''
14 th June,	Life policy on Emojong's life	5,000
	Surrender value: Barmoi & Kimani's life policies	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

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

Required:

- i. Statement of cash distribution using the Maximum Possible Loss Method.(15 marks)
- ii. Realization Account. (6 marks)
- iii. Bank Account (6 marks)
- iv. Partner's Capital Accounts (3 marks)

QUESTION TWO:

- a) Elgon 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

1. The administrative expenses include depreciation charge of 10% on cost per annum.
2. Include a provision for doubtful debts 800 Mils
3. 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 (10 marks)

- b) Fingers Ltd leased a coal mine from Hand Ltd at a minimum rent of Sh.150,000 per annum on which royalty fees was payable at Sh.10,000 per tonne. There was a stipulation that short workings could only be recouped in the first three years of the lease. The outputs in the first four years of the lease were 8 tonnes, 13 tonnes, 21 tonnes and 18 tonnes respectively.

Required:

Show the entries to be made in the

- i. Short workings A/C;

- ii. Royalties A/C,
- iii. Land Lord A/C in the books of Finger Ltd in the first four years assuming the lease commenced on 1 Jan. 2010 (10 marks)

QUESTION THREE:

- a) Explain any SIX benefits of adopting IPSAS in Public sector accounting (6 marks)
- b) The following information relates to the government of Country X for the year ended 30th June, 2009:

Receipts	Sh “ Billions”	Payments:	Sh “ Billions”
Receipts from trading activities	135	Interest Payments	3
Other receipts	15	Purchase of plant and Equipments	295
Income Tax	712	Wages, salaries and employee benefits	524
Proceeds from disposal of equipments	162	Repayment of borrowings	44
Property tax	55	Other payments	18
Grant and aid from international agencies	180	Supplies and consumables	865
Value added tax	441	Purchase of financial instruments	100
Proceeds from borrowings	20		
Other taxes	20		
Other grant and Aid	80		

Additional Information:

1. Cash in hand 1st July, 2008 amounted to Sh. 15 billion
2. Included in the payments for the year ended 30th June 2009 are payments financed through grants from international agencies and borrowings as follows (in Sh, Billions)
3. Wages, salaries and employee benefits 34
4. Supplies and consumables 155
5. Purchase of plant and equipment 55
6. Other payments 3
7. Payments made by international agencies during the year ended 30th June, 2009 amounted to sh 152 billion. This amount is not included under receipts from “grant and Aid from international agencies” or receipts from other grants and aid”

Required:

Prepare consolidated statement of cash receipts and payments for the year ended 30th June, 2009 in conformity with International Public Sector Accounting Standard on Financial Reporting Under the cash basis of Accounting. (14 marks)

QUESTION FOUR:

- a) The following figures are a summary of hire purchase transactions by a dealer of electric goods during his first year of trading.

	Sh.
Goods sold on hire purchase: Cost	45,000
H.P. Selling Price	75,000

Deposits received:	25,000
Installments received:	30,000

After the above transactions had taken place, goods which had cost Sh. 900 and had been sold for Sh.1,500 were repossessed after deposits of Sh.500 and installment of Sh.200. These goods were valued at Sh.330 after reconditioning at Sh.50 and are put into stock.

Required:

- i. H.P debtors' a/c,
 - ii. H.P sales a/c
 - iii. Repossession A/C
 - iv. Calculate the Provision for unrealized profit; hence show the Income statement extract. (10 marks)
- b) Differentiate between:
- | | |
|--|------------|
| Associate company and Joint venture in group accounts | (4 marks) |
| Contingent Liability and Provision for expenses in financial reporting | (4 marks) |
- c) Give TWO characteristics of the economic environment in a country which indicates the characteristics of hyperinflation. (2 marks)