



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

### **DEPARTMENT OF HUMAN RESOURCE**

#### **UNIVERSITY ORDINARY EXAMINATION**

**2017/2018 ACADEMIC YEAR**

#### **FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBA 2401 – ADVANCED FINANCIAL REPORTING**

**DURATION: 2 HOURS**

**DATE: 18<sup>TH</sup> DECEMBER 2017**

**TIME: 9.00 – 11.00 AM**

#### **Instructions to Candidates:**

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

## **SECTION ONE - COMPULSORY**

### **QUESTION ONE**

- (a) Explain any four functions of the International Accounting Standards Board (IASB) In the development of International Accounting Standards. (8 marks)
- (b) With reference to IAS 36 (impairment of Assets) Explain any five factors within the external environment which evidence impairment of non-current assets. (10 marks)
- (c) Provide a clear distinction between the following terms:
  - (i) Financial instrument and Financial Assets (4 marks)
  - (ii) Financial liability and Equity Instrument (4 marks)
- (d) Explain the meaning of the following terms as used in the conceptual framework underlying financial reporting.
  - (i) Going concern (10 marks)
  - (ii) Substance over form (2 marks)
  - (iii) Relevance of financial information (1 mark)

## **SECTION TWO – ANSWER ANY TWO QUESTIONS**

### **QUESTION TWO**

- (a) With reference to IFRS 19. (Employee benefits), Differentiate between a defined contribution plan and a defined benefit plan. (4 marks)
- (b) Bidii Limited operates a defined benefits pension plan for its employees. As at 1<sup>st</sup> Jan 2013 the fair value of the plan assets was sh 3.7 million, and the present value of the plan liabilities was 3.9 million actuarist's estimate the service cost for the year to 31/12/2013 was shs 1.1 m. The pension plan paid shs 340,000 to retired members and received shs 760,000 contributions to the pension plan in the year to 31/12/2013. If the relevant discount rate is 5%, and fair value of plan assets as shs 4.4 million, and present value of plan liabilities was 4.7 million at 31/12/2013:  
Required:
  - (i) Calculate the expense to be shown in profit and loss Account. (2 marks)
  - (ii) Calculate net actuarial gain or loss on the pension plan assets and liabilities for the year ended 31/12/2013. (14 marks)

### QUESTION THREE

- (a) On 1<sup>st</sup> January 2014, ABC Ltd issued a Sh 10 million, 4% 3 year convertible loan. The market rate of interest for similar loans without conversion option right is 8%. Conversion terms are one equity share of shs 100 nominal value for every Sh 200 debt. Assuming that redemption is due after 3 year at par:-
- (i) Show the liability component and equity components of the instruments. (2 marks)
  - (ii) If the liability components is measured at amortized cost provide an amortization schedule for the three years. (5 marks)
  - (iii) If all holders choose to convert the instrument to equity shares
    - (i) Show the journal entries recognizing the conversion and explain the resultant instruments.
    - (ii) Explain the difference in the categorization of financial instruments as provided by I.A.S. 39 (of financial instruments) and IFRS7 (Disclosures of financial instruments) (6 marks)

### QUESTION FOUR

- (a) Describe the following terms as provided for in IAS 12 (income taxes)
- (i) Defferred tax
  - (ii) Current tax
  - (iii) Tax base
  - (iv) Tax Credit (4 marks)
- (b) Nibade Ltd granted 1,000 share appreciation tights (SAR) to each of its 5,000 employees on 1/7/2015, on condition that the employees work for at least 3 years from grant date. The right can be exercised in the 2 months f ollowing the end of the vesting period, with settlement due in cash. In the year to 30/6/2016 80 employees left and a further 130 employees were expected to leave over the following two years. The fair value of each S.A.R. was Sh 8.00 at 01/07/2015 and sh 9.00 at 30.06.2016.
- Required:
- In accordance with IFRS2 (Share Based Payments)
- (i) Prepare the journal entries to record the expenses associated with SAR in the Company's Financial Statements for the year to 30/6/2016. (4 marks)

- (ii) Explain how the recognition and measurements of the share based payments would differ if it was settled in equity rather than in cash (4 marks)
- 4 (c ) IFRS6 (Exploration and evaluation of mineral resources specifies the standards for recognition, measurement, and presentation of assets used to explore for mineral.
  - (i) Explain four exploration activities that qualify to be recognized as expenditure items. (4 marks)
  - (ii) Explain any two disclosures that an exploration firm must provide in the financial statements. (4 marks)