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**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

# University Examinations 2016/2017

**YEAR II SEMSTER I EXAMINATION FOR THE DEGREE OF MASTER OF SCIENCE IN FINANCE AND ACCOUNTING**

# HBAA 3202: ADVANCED FINANCIAL REPORTING

**DATE: JULY, 2017**  **TIME: 3 HOURS**

**INSTRUCTIONS: Answer Question ONE and any TWO other questions.**

**Question One – 40 Marks**

a) i. Before documentation in Agriculture was not considered vital and the range of accounting was also very small in relation to commercial sector. With increased importance of agricultural sector agricultural sector is becoming important.

 Highlight five reasons for developing agricultural accounting standard. [5 marks]

 ii. Outline five ways how fair value of biological asset and agricultural produce is determined. [5 marks]

b) SOS ltd is a Moto company operating in different countries. Together with it subsidiaries prepares segment reporting according to IFRS. The following relates to SOS limited and its subsidiaries.

|  |  |
| --- | --- |
| Sales to customers outside the group | Shs. (million) |
| Tyre division  | 520 |
| Fabrication division  | 300 |
| Auto mobile division  | 660 |
| Sales not allocated to automobile, tyre or fabrication division | 10 |
| Assets used by: |  |
| Automobile division  | 400 |
| Tyre division  | 630 |
| Fabrication division  | 280 |
| Assets not used by automobile tyre or fabrication divisions  | 120 |
| Sales by auto mobile division to other group members | 410 |
| Sales by tyre division to other group members  | 380 |
| Sales of fabrication to other group members  | 180 |
| Expenses not allocated to automobile, tyre fabrication division  | 20 |
| Interest expenses not allocated to automobile, tyre or fabrication division  | 10 |
| Share of net profit to associate tyre division  | 50 |
| Unallocated to automobile, tyre or fabrication division  | 4 |
| Income taxes  | 10 |
| Investment in equity method of associate in tyre division  | 50 |
| Interest income not allocated to automobile tyre or fabrication division  | 15 |
| Investment in equity method of associate not allocated to automobile, tyre or fabrication division  | 15 |
| Liabilities: |  |
| Auto mobile division  | 250 |
| Tyre division  | 130 |
| Fabrication division  | 60 |
| Liabilities not allocated to automobile, tyre or fabrication division  | 110 |
| Capital expenditure of: |  |
| Automobile division  | 30 |
| Tyre division  | 20 |
| Fabrication division  | 10 |
| Depreciation of: |  |
| Automobile division  | 15 |
| Tyre division  | 10 |
| Fabrication division  | 8 |
| Segment net profit by: |  |
| Automobile division  | 100 |
| Tyre division  | 80 |
| Fabrication division  | 40 |
| Sales to customers outside the group by: |  |
| Automobile division  | 180 |
| Tyre division  | 150 |
| Fabrication division  | 100 |
| Others  | 60 |
| Sales not derived from Uganda, Tanzania, South Africa & others  | 10 |
|  |  |
| Assets used by: |  |
| Uganda  | 515 |
| Tanzania  | 470 |
| South Africa  | 400 |
| Others  | 100 |
| Capital expenditure  |  |
| Uganda  | 25 |
| Tanzania  | 20 |
| South Africa  | 10 |
| Others  | 5 |
| Fire had destroyed tyre division & loss made | 19 |

Required:

Draft an industry segment report for inclusion in the annual report of SOS ltd. [15 marks]

c) Highlight any five characteristics of notes to financial statements. [5 marks]

d) Describe bankruptcy and highlight any four objectives of bankruptcy. [5 marks]

e) Explain four factors that cause changes in exchange rate. [5 marks]

**Question Two – 15 Marks**

a) Nak ltd collects and exports charcoal for cooking. Market research done in Dubai, UAE found charcoal market booming and there is a free market booming and there is a free market. They decided to open an independent branch in Dubai. Branch keeps records in UAE Dirham (Dir).

 The following is the ranch trial balance for the year ending 30t September 2016.

|  |  |  |
| --- | --- | --- |
|  | Dr. | Cr. |
| Closing stock  | 1440 |  |
| Sales  |  | 30440 |
| Goods from head office  | 10560 |  |
| Salaries and wages  | 12000 |  |
| Sundry expenses  | 720 |  |
| Cash at bank  | 132 |  |
| Account receivables and accounts payable  | 2640 | 820 |
| Provision for doubtful debts 31st October 2015 |  | 55 |
| Land and building at cost  | 18810 |  |
| New equipment at cost (invoice date Mar 2016) | 5940 |  |
| Depreciation 1 September 2015 |  | 1188 |
| Remittance to head office  | 16059 |  |
| Head office current account  |  | 35870 |

Additional information:

1. Closing stock was valued at Dir 1800.
2. Depreciation is to be provided on furniture and equipment at 10% by straight line method.
3. Provision for doubtful doubts to be adjusted to the outstanding debtors at 5%.
4. Following rate were relevant.

|  |  |  |
| --- | --- | --- |
|  | Ksh.  | Rfrc  |
| 1 October 2015 | 1 | 5.5 |
| 31 March 2016 | 1 | 6.2 |
| 30 September 2016 | 1 | 7.0 |
| Average rate  | 1 | 6.0 |
| At purchase of original asset  | 1 | 4.0 |

Required:

Translate the trial balance into ksh.

b) State five factors that should be highlighted where there are departures from standard requirements to achieve fair representation of financial statements.

**Question Three**

a) Describe the complete set of financial statements as outlined by the international accounting standards one (IASI). [10 marks]

b) Highlight five factors considered in determining whether products and services are related in operating segments. [5 marks]

**Question Four**

a) Highlight on any five forms of business combinations as reflected by IFRS3. [5 marks]

b) i. Describe the terms bargain in purchase and negative goodwill. [2 marks]

 ii. Explain any four causes of gain on acquisition (negative goodwill). [8 marks]