



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS

2021 / 2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

**FOR THE DEGREE OF MASTERS IN BUSINESS
ADMINISTRATION**

COURSE CODE: ADVANCED ACCOUNTING

COURSE TITLE: MBA 821

DATE: TEUSDAY, 26TH JULY 2022

TIME: 2-5 PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER THREE (3) QUESTIONS

TIME: 3 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. 

QUESTION ONE (25 MARKS) COMPULSORY

- a) 'In the absence of a fully developed theory of accounting, many researchers and committees have approached the task of reforming accounting practices by enumerating the characteristics which they believe should be exhibited by accounting reports.' State and briefly explain **FOUR** characteristics which you think are desirable in financial accounting reports. (6 marks)
- b) With reference to IAS 19 (Retirement benefit costs), define the following terms:
- (i) Experience adjustments. (2 marks)
 - (ii) Current service costs. (2 marks)
 - (iii) Vested employee benefits (2 marks)
- c) Explain the following terms as used in IFRS 3-business combinations.
- (i) A business combination. (2 marks)
 - (ii) An acquisition. (2 marks)
 - (iii) Fair value. (2 marks)
 - (iv) Reverse acquisitions. (2 marks)
- d) Financial statements prepared under historical cost convention do not have regard for changes in price levels and therefore do not reflect financial realities. Discuss five limitations that statements prepared by historical cost accounting possess that reduces their utility to the users. (5 Marks)

QUESTION TWO (15 MARKS)

ABC Ltd has two departments A and B. You are required to prepare the trading, profit or loss account for each department for the year ended 31st January 2022 on the basis of the following information.

	Dept. A Sh.	Dept. B Sh.
Opening stock (1-2-2021)	25,000	20,000
Purchases	230,000	190,000
Sales	633,000	492,000
Sales returns	3,000	2,000
Closing stock (31-1-2022)	30,000	18,000
Wages	80,000	60,000
Salaries	40,000	25,000

Other Common Expenses:

Rent	Sh. 25,000
Electricity	6,000
Depreciation	18,000
Selling expenses	8,000

Some other relevant information are given below:

	Dept. A	Dept. B
Light points	18	9
Value of Assets (Shs.)	150,000	120,000

Floor area (sq. mtrs) 300 200

QUESTION THREE (15 MARKS)

a) The balance sheets of Simu Ltd and Telephone Ltd on 31st October 2018 were as follows:

	H Ltd	S Ltd
	Sh.	Sh.
Ordinary share capital of Sh 10 each	50,000	20,000
Share premium	20,000	10,000
Reserves	10,000	8,000
Retained profits	<u>20,000</u>	<u>12,000</u>
	100,000	50,000
Creditors	<u>20,000</u>	<u>10,000</u>
	<u>120,000</u>	<u>60,000</u>
Non-Current Assets	60,000	45,000
Investment in S Ltd at cost	40,000	
Current assets	<u>20,000</u>	<u>15,000</u>
	<u>120,000</u>	<u>60,000</u>

Required:

In each of the following cases, prepare the consolidated statement of financial position.

Treat each case independently.

- i) Simu Ltd acquired 1600 ordinary shares of Telephone Ltd in 2018 when the later had the following balances: Reserves sh. 3000, retained profits sh 7000. All dividend paid for year by S Ltd have been from post-acquisition profits. (8 marks)
- ii) Simu Ltd acquired 75% of the ordinary shares of Telephone Ltd in 2017 when the later had a debit balance of sh. 2000 in the retained earnings account and no balance in the reserves account. (7 marks)

QUESTION FOUR (15 MARKS)

- a) Accounting, like any other discipline has rules and guidelines that guide accountants to create, preserve and present financial statements. Provide an evaluation of any five such rules and guide lines highlighting their importance. (8 Marks)
- b) Financial statements can never be complete if they are not accompanied by footnotes. List 7 disclosures that need to be captured in the notes and explain their importance. (7Marks)

QUESTION FIVE (15 MARKS)

MMUST Traders Ltd, has it Head office at Kakamega and Branch at Bungoma. The branch is authorized to have independent transactions. It maintains a complete set of accounts.

The trial balance of Bungoma Branch at at 31st January 2022 is given below:

	Debit Sh.	Credit Sh.
Sales	-	360,000
Purchases	130,000	-
Goods from Head office	124,000	-
Stock	60,000	-
Wages	66,000	-
Carriage	25,200	-
Salaries	18,000	-
Rent	9,600	-
Office expenses	9,200	-
Cash in hand	4,000	-
Debtors/Creditors	3,200	24,000
Head office	<u>-----</u>	<u>94,000</u>
	<u>478,000</u>	<u>478,000</u>

On 31st January 2022, stock was valued at Sh. 98,000. The Head office revealed Debit balance in branch account Sh. 108,000.

The analysis revealed the following:

- a) Sh. 8,000 remitted by Bungoma branch on 29th January 2022 was received by head office on 2nd February 2022.
- b) Goods worth Sh. 6,000 sent by head office on 28th January 2022 was received by Bungoma branch on 3rd February 2022.

You are required to:

- i) Pass Journal entries incorporating branch account.

- ii) Prepare Bungoma branch account in the books of Kakamega head office.
- iii) Prepare Branch Trading, Profit and Loss account for the year ended 31st January 2022.
- iv) Branch Balance Sheet as at 31st January 2022. (5 marks each=20 marks)