



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY
(MMUST)**

MAIN/BUNGOMA/WEBUYE/KAPSABET/MUMIAS/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF**

BACHELOR OF SCIENCE IN ACCOUNTING

COURSE CODE: BCA 305

COURSE TITLE: CORPORATE FINANCIAL REPORTING

DATE Wednesday 14th December 2022 TIME: 8.00am-10.00am

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

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



QUESTION ONE (30 MARKS)

i) Corporate financial reporting is a tool used by corporates to share information about the operations of the reporting entity for a particular period of time. Discuss at least five types of financial statements clearly indicating the importance of each to users of financial information(10 marks)

ii) International Financial Reporting Standards (IFRSs) are promulgations issued by the International Accounting Standards Board (IASB) after various processes have been taken. Discuss the stages involved in the development of IFRSs(10 marks)

iii) The conceptual Framework for financial reporting was reviewed and updated in march 2018 with a view to improve the qualitative aspects of financial information derived from corporate financial reports produced by reporting entities. Discuss the two categorization of qualitative characteristics of financial information as per the revised Conceptual framework for financial reporting.(10 marks)

QUESTION TWO (20 MARKS)

The following incomplete balance sheet relate to Concorde Ltd for the years ended 31 December 2021:

Balance sheet as at 31 December:

	2020 Shs 'm'	2021 Shs 'm'
<u>Assets</u>		
Non-current assets		
Plant and equipment	100	250
Accumulated depreciation	<u>(40)</u>	<u>(90)</u>
Net book value	60	160
Current assets		
Accounts receivable	40	37

Deferred tax asset	0	?
Other assets	<u>70</u>	<u>80</u>
Total current assets	<u>110</u>	?
Total assets	<u>170</u>	?
<u>Equity and liabilities</u>		
Share capital and reserves		
Ordinary share capital	90	90
Retained earnings	<u>30</u>	?
Equity	<u>120</u>	?
Liabilities		
Deferred tax liability	4	?
Pension provision	0	2.5
Current tax payable	16	?
Other liabilities	<u>30</u>	<u>99.5</u>
Total liabilities	<u>50</u>	?
Total equity and liabilities	170	?

Additional information:

1. The company reported an accounting profit before tax of sh.60 million for the year

ended 31 December 2021. This profit was arrived at as shown below:

	Shs 'million'
Sales	300
Cost of sales(including depreciation shs.50 million)	<u>(160)</u>
Gross profit	140
Selling and distribution expenses	<u>(80)</u>
Profit before tax	60

2. The company declared a dividend of sh.10 million for the year ended 31 December 2021.
3. Depreciation on plant and equipment is provided at the rate of 20% on straight-line basis. Plant and equipment qualify for capital allowances at the rate of 25% of cost on straight-line basis .
4. Accumulated tax depreciation as at 31 December 2020 was sh.50 million. On 1 February 2021, the company purchased additional costing sh.150 million. The company's policy is to charge a full year's depreciation in the year of purchase and none in the year of disposal.
5. Included in selling and distribution expenses is sh.5 million representing an expense which was disallowed by the tax authorities.
6. The company charged the income statement with sh.14 million representing pension costs for the year ended 31 December 2021. Sh.11.5 million of this amount was allowed for tax purposes.
7. The company made a general provision for bad debts of sh.3 million for the year ended 31 December 2021. There were no bad debts written off during the year.
8. On 31 July 2021, the company made a tax payment of sh.15 million.
9. Corporation rate of tax is 30%.
10. The company separately accounts for deductible and taxable temporary differences.

Required:

- i. Determine the charge in the income statement for current tax and deferred tax expenses.(6 MARKS)
- ii. Cash flow statement (in accordance with the requirements of IAS 7-use Indirect Method) for the year ended 31 March 2003.(14 marks)

QUESTION THREE (20 MARKS)

- a) Explain the following terms as used in business valuation.
 - i) Income Approach (2marks)
 - ii) Asset approach (2marks)
 - iii) Market approach (2marks)
- b) Business valuations are important in informing decision making for different types of users of financial information. You are required to explain atleast five (5) roles of business valuations(10marks)
- c) IAS 7 Statement of Cashflows permits the use of both direct and indirect methods for the preparation of statement of Cashflows as one of the key Financial Statements that a reporting entity must prepare and present as part of annual corporate reports. Outline the differences between the direct and indirect method for statement of cashflow preparation. (4marks)

QUESTION FOUR (20 MARKS)

The following trial balance relates to Apple Ltd as at 31 March 2022:

	Sh. '000'	Sh.'000'
Ordinary shares of Sh.10 par value	-	100,000
Share premium	-	40,000
Retained earnings (1 April 2021)	-	22,400
Land and buildings at cost (Land Sh.40 million)	120,000	-
Plant and equipment at cost	189,000	-
Accumulated depreciation: 1 April 2021: Buildings	-	40,000
Plant and equipment	-	49,000
Inventories (31 March 2022)	87,400	-
Trade receivables	84,400	-
Bank balance	-	13,600
Deferred tax	-	12,400
Trade payables	-	70,200
Revenue	-	1,100,000
Cost of sales	823,000	-
Distribution costs	43,000	-
Administrative expenses	61,800	-
Dividends paid	40,000	-
Bank interest	1,400	-
Current tax	-	<u>2,400</u>
	1,450,000	1,450,000

Additional information:

1. On 1 April 2021, the company's directors decided that land and buildings should be revalued at their market values. At that date, an independent expert valued land at Sh.24 million and buildings at Sh.70 million and these valuations were accepted by the directors. The remaining useful life of buildings on that date was 14 years. The company does not make a transfer to retained earnings for excess depreciation.
2. Plant and equipment is depreciated at 20% per annum using the reducing balance method and time apportioned as appropriate. Depreciation for the year is yet to be accounted for.
3. Directors' remuneration amounting to Sh.11 million should be provided for and is classified as administrative cost.
4. Income tax provision of Sh.54.4 million is required for the year ended 31 March 2022. As at that date, deferred tax liability amounted to sh.18.8 million. The movement in deferred tax should be taken to profit or loss. The balance on the current tax in the trial balance represents over/under provision of tax liability for the year ended 31 March 2021.
5. On 1 July 2021, the company made a rights issue of 1 share for every 4 shares at sh.24 each immediately before this issue, the stock market value of the shares was sh.40 each.

Required:

- (a) Statement of comprehensive income for the year ended 31 March 2022(20 MARKS)
- (b) Statement of changes in equity as at 31 March 2022 (20 MARKS)