



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE/ CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCA 319

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

DATE: Friday 21st April 2023

TIME: 8.00-11.00am

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)

- a) Highlight three benefits of International accounting standards (3 marks)
- b) In context of international accounting standard (IAS) 21 explain how various items are translated under the functional currency translation method (8 marks)
- c) Highlight four advantages of Current purchasing power method as a method of accounting for the effect of inflation (8 marks)
- d) Jahazi LTD was established on 1st January 2009. Its opening balance sheet as at this date was as follows;

	Shs “000”
Land	6000
Equipment	4000
Inventory	<u>2000</u>
Equity	<u>12000</u>

During the year ended 31st December 2009, the company completed the following transactions

- Purchased inventory at sh. 10,000,000
- Sold inventory for sh 11,000,000 in cash. The inventory has historical cost value of shs 9,000,000

Additional information

1. Closing inventory on 31st December 2009 had a historical cost of sh. 3,000,000 and was bought when the retail price index was 115 (average)
2. The equipment had expected useful life of four years and a nil residual value. The straight line method of depreciation was used
3. The general price index during the year was as follows:

1 st January 2009	100
30 th June 2009	110
31 December 2009	120
4. Assume that purchases and receipts occurred evenly during the year
There were no Debtors or Creditor

Required:

- i) The current purchasing power profit (or loss) for the year ended 31st December 2009(6 Marks)
- ii) The current purchasing power balance sheet as at 31st December 2009 (6 Marks)

QUESTION TWO (30 MARKS)

Mercy Ltd. has two departments, A and B. Data for the two departments for the year ending 31st December 2022 is given below.

	A Sh.	B Sh.
Opening Stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Sales	140,000	112,000
Wages	12,000	8,000
Carriage	2,000	2,000
Closing Stock: (i) Purchased goods	4,500	6,000
(ii) Finished goods	24,000	14,000
Purchased goods transferred: by B to A	10,000	
by A to B		8,000
Finished goods transferred: by A to B	35,000	
by B to A		40,000
Return of finished goods: by A to B	10,000	

by B to A	7,000
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You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

Required

Prepare Departmental and consolidated Trading, Profit & Loss Accounts for the year ending 31st December, 2022 (20 marks)

QUESTION THREE (20 MARKS)

Kenya Airways Limited is a company incorporated in Kenya and operates throughout the COMESA region. It is in the process of making an Initial Public Offering of its shares on the Nairobi Securities exchange. The directors are non-accountants and they are aware that you are studying BCA 319 at MMUST and have approached you for advice.

You are provided with the following information:

1. The main revenue-earning asset is a fleet of Aircraft, each of which is registered in Kenya, and its other main source of revenue comes from the sale of holidays in the coastal region of Kenya. The directors are unsure as to how to identify business and geographical segments.
2. The company also owns an aircraft maintenance subsidiary which carries out maintenance to its aircraft and third parties. Routine maintenance is charged by subsidiary at market price. However, for specialized work, since there is often no equivalent market price, the companies negotiate a price for the work.
3. The company has incurred an exceptional loss on the sale of several aircraft to the government of the Democratic republic of Congo. The loss occurred due to a fixed price contract which had been signed several years ago for the sale of second hand aircraft; the contract was denominated in the currency of the Congo: the Congo currency had fallen in value substantially against the Kenya shilling.
4. In the year under consideration, the company decided to discontinue its holiday business due to competition in this sector. This plan had been approved by the board of directors and announced in the press.
5. The company owns 40% of the ordinary shares of Tanzania Tours Limited, an unquoted company incorporated in Tanzania, which specializes in flying tourists to game parks in Tanzania from Arusha and Dar-es-salaam. The investment is accounted for using the equity method of accounting and it is proposed to exclude the company's results and financial position from segment revenue and assets.

Required:

- (a) Demonstrate what to consider in grouping related products and services into business segments. (5 marks)
- (b) For directors of Kenya Airways limited what should be considered in grouping geographical regions into segments to ensure information content of financial statements is improved? (6 marks)
- (c) Discuss the implications of each of the above points in (a) and (b) for the determination of the segmental information required to be prepared and disclosed under IAS 14 (Revised) "Segment Reporting". (9 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the four types of endorsement on Bills of Exchange(4 marks)
- b) List the essential features of a bill of exchange. (6 marks)
- c) The following information relates to Mambo, a trader for the month of March 2022.

March 5. She drew three bills on B for sh. 500, sh. 400 and sh. 300 payable at 4th, 3rd, and

2nd month respectively.

March 12. She endorsed his first bill in favour of his customer C. at sh. 475

March 19. She discounted the second bill with his banker for sh. 380

March 26. She was paid the proceeds of the third bill at a rebate of 5% on the total amount of the bill. On the due dates the first and the second bills were dishonoured but the third one was paid.

Required: journal entries as would appear in Mambo's books. (14 marks)