



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2017/2018 ACADEMIC YEAR  
FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS  
BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 403**

**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING II**

**DATE : 20<sup>TH</sup> APRIL 2018**

**TIME: 08.30-10.30**

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**INSTRUCTIONS**

Answer all questions in Section A and **ANY OTHER THREE** in section B

*This paper consists of 4 printed pages. Please turn over.*

## SECTION A

### Question One (Compulsory)

#### Question One

Gregory Company's condensed income statement is presented below:

Revenue		Kshs	2,000,000
Expenses		Kshs	
Cost of goods sold	800,000		
Operating and administrative expenses	400,000		
Depreciation expense	<u>80,000</u>	<u>1,280,000</u>	
Income before taxes		720,000	
Income tax expenses		<u>216,000</u>	
Net Income		<u>504,000</u>	

Earnings per share (100,000 shares) 5.04

The following data is compiled relative to Grider's operating Segment:

	<u>Percent Identified with segment</u>		
	<u>Hotels</u>	<u>Grains</u>	<u>Candy</u>
Revenues	42%	50%	8%
Cost of goods sold	48	49	3
Operating and administrative expense	35	50	15
Depreciation expense	46	42	12

Include in the amounts allocated to each segment on the above percentages are the following expenses which related to general corporate activities:

	<u>Operating Segment</u>			
	<u>Hotels</u>	<u>Grains</u>	<u>Candy</u>	<u>Total</u>
Operating and administrative expenses	24,000	18,000	6,000	48,000
Depreciation Expense	3,500	4,000	2,500	10,000

#### Instructions

- Prepare a schedule showing the amount distributed to each segment **(15 Marks)**
- Based only on the above information, which segment must be reported and why? **(5 Marks)**
- Explain the advantages and disadvantages of segmental reporting **(5 Marks)**

## QUESTION TWO

The following is the balance sheet of Narok Company Ltd on 31<sup>st</sup> Dec. 2017

### Narok Co Ltd

#### Balance Sheet as at 31<sup>st</sup> Dec. 2017

	Ksh	Ksh	Ksh
Leasehold Premises			130800
Plant and Machinery			42200
Patents at Cost			850000
Preliminary exp.			12000
Disc. On issues of shares			18000
Profit and loss A/C			<u>115000</u>
			1168000
<u>Current Asset</u>			
Stock		55,000	
Debtors		76,000	
Cash		<u>500</u>	
		132,000	
<u>Current Liabilities</u>			
Sundry Creditors	30000		
Bank Overdraft	<u>20000</u>	<u>(50000)</u>	<u>82,000</u>
			<u>1,250,000</u>
<u>Financed by</u>			
Authorized s/capital			
10000 pre. Shares 100/= each			1,000,000
10000 equity shares of sh. 100 each			<u>1,000,000</u>
			<u>2,000,000</u>
<u>Subscribed share capital</u>			
7500 Pref. of sh. 100 each highly paid			750,000
5000 Equity share of sh. 100 each fully paid			<u>500000</u>
			<u>1,250,000</u>

The company suffered losses and was not getting on well. The following scheme of reconstruction was adopted:

- The preferences shares to be reduced to an equal number of fully paid shares of each sh. 50 each.
- The equity share to be reduced to an equal number of shares of each sh. 25 each.
- The amount available to be used to write off sh. 30800 of the Leasehold Premises, sh. 15000 off stock, 20% off Plant and machinery and Debtors and the balance available off the patents.

## REQUIRED

Journalize the transaction.

**(15 Marks)**

### QUESTION THREE

- a. You are required to describe your understanding of the term “Value Added” as used in accounting **(5 marks)**
- b. Using the following summarized information prepare a value added statement. **(5 marks)**

Summarized information for XYZ Ltd in respect of the year ended 21<sup>st</sup> December 2017

	Kshs. 000
Salaries and wages	200
Purchased materials used in production	300
Sales	740
Corporation tax on the profit for the year	60
Dividend proposed	24
Services purchased	60
Depreciation of fixed assets	40
Loan interest paid and payable	20

- c. What advantage is claimed for including a value added statement in a company’s corporate report? **(5 marks)**

### QUESTION FOUR

Write in details about each of the following as regards inflation Accounting

- a) Limitation of Historical Cost Accounting **(5 Marks)**
- b) Objectives of the inflation Accounting **(5 Marks)**
- c) Limitations of inflation Accounting **(5 Marks)**

### QUESTION FIVE

In regards to impairment of Assets (IAS 36), write in details about the following giving relevant illustration:

- a) Circumstances that leads to Impairment of Assets **(5 Marks)**
- b) Treatment of Impairment loss in Final Accounts **(5 Marks)**
- c) Conditions that lead to reversal of Impairment Loss **(5 Marks)**

### QUESTION SIX

Explain each of the following as lease accounting is concerned.

- a. Distinction between Finance Lease and Operating Lease **(5 marks)**
- b. Advantages and Disadvantages of Leasing **(5 marks)**
- c. Meaning and Accounting treatment of ‘ale Leaseback’ **(5 marks)**

**END//**