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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

ACC 313: FINANCIAL REPORTING

DATE: 8TH APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

The following list of accounts and their balances represents the unadjusted trial balance of Dalili Limited as at December 31, 2018.

	Dr. Sh.000	Cr.
Sh.000		
Cash	36,420	
Accounts receivable	77,000	
Allowance for uncollectible debts		3,500
Interim dividend paid	21,000	
Inventories	66,000	
Prepaid insurance		2,620
Installment tax paid		22,000
Investment in Midnight oil Company Bonds (12%)	40,000	
Land at cost		62,300
Buildings at cost	111,000	
Accumulated depreciation -Buildings 14,800		
Equipment	33,600	
Accumulated depreciation -Equipment 5,600		
Accounts payable		
63,000		
10% loan stock		85,000
Ordinary share capital		210,000
Accumulated profit		
21,930		
Sales		
266,000		
Rental income		5,550
Advertising expenses	27,750	
Supplies expenses		10,800
Purchases	111,440	
Purchases allowance		900
Office salary expenses	17,500	
Sales salary expenses	36,000	
Interest expenses		850
	<u>676,280</u>	<u>676,280</u>

Additional Information:

- Actual advertising costs amounted to sh.1,850,000 per month. The company has already paid for advertisements in People Magazine for the first four months of 2019.
- The buildings were purchased and occupied in January 1, 2016 with an estimated useful life of 15 years. It is the company's policy to depreciate its property, plant and equipment with the exception of land using the straight-line approach.

3. Prepaid insurance contains the premium costs of two policies: Policy A, cost of sh.960,000, for a one year term taken out on Sept 1 2017, Policy B, cost sh.1,980,000, for a three year term taken out on April 1, 2018.
4. A portion of Dalili Limited's buildings has been converted into a snack bar that has been rented to the Yummy Food Corp. since July 1, 2017 at a rate of sh.3,700,000 per year payable each July 1.
5. One of the company's customers declared bankruptcy on December 30, 2018 and it has been definitely established that the sh.2,700,000 due from him will never be collected. This fact has not been recorded. In addition, Dalili Limited estimates that 5% of the accounts receivable balance on December 31, 2018 will become un-collectible.
6. Sh.900,000, which was advanced to a salesperson on December 31, 2018 was charged to Sales salary expense. Sales salaries are paid on the 1st and 16th of each month for the following half month.
7. Equipment, with an estimated useful life of 12 years was acquired on January 1, 2016.
8. On August 1, 2018 Dalili Limited purchased 40, sh.1,000,000, 12% Bonds maturing on August 31 2020, at par value. Interest payment dates are July 31 and January 31.
9. The inventory on hand at December 31, 2018 was sh.80,000,000 per a physical inventory count.
10. It is estimated that the tax for the year on adjusted profit to be sh. 30,000,000.
11. The directors have paid a final dividend payment of 10%. The same had not been accounted for.

Required:

- a) Prepare a statement of comprehensive income for the period
(10 Marks)
- b) Prepare the statement of financial position as at 31st December 2018
(7 Marks)
- c) Illustrate the importance for companies to adhere to IAS in their financial reporting
(8 Marks)

QUESTION TWO

- (a) Discuss how the adoption of conceptual framework has impacted the quality of financial reporting among companies
(4 Marks)
- (b) Define the following terms as used in accounting for insurance companies
 - (i) Surrender Value

- (ii) Endowment Policy
- (iii) Reversionary Bonus **(3 Marks)**

(c) Outline four roles of financial reporting in accessing finance, strategic planning, and regulatory compliance **(8 Marks)**

QUESTION THREE

- (a) Discuss **four** roles of transparency and disclosure requirements in modern financial reporting for pension funds **(8 Marks)**
- (b) Evaluate **three** responsibilities of a trustee in managing a trust **(3 Marks)**
- (c) Explore the opportunities and challenges associated with the use of technology in financial reporting **(4 Marks)**

QUESTION FOUR

Palash Bank Limited is a medium-sized bank with a turnover of Kshs 200,000,000 for the financial year ending December 31, 2022. The bank provides various financial services including loans, deposits, foreign exchange, and investment services. The following information relates to some of the transactions and balances as at December 31, 2022:

1. Loans and Advances to Customers:

Total loans and advances granted: Kshs 120,000,000

Provision for doubtful debts: Kshs 3,000,000

2. Customer Deposits:

Demand deposits: Kshs 80,000,000

Time deposits: Kshs 40,000,000

Interest accrued on time deposits: Kshs 500,000

3. Investments:

Government securities: Kshs 20,000,000 (fair value)

Corporate bonds: Kshs 10,000,000 (fair value)

4. Fixed Assets:

Buildings: Kshs 15,000,000 (original cost)

Furniture and fixtures: Kshs 5,000,000 (original cost)

Accumulated depreciation on buildings: Kshs 3,000,000

Accumulated depreciation on furniture and fixtures: Ksh
2,000,000

5. Other Income and Expenses:

Interest income from loans and advances: Kshs 18,000,000

Interest income from investments: Kshs 1,000,000

Interest expense on deposits: Kshs 6,000,000

Operating expenses: Kshs 12,000,000

Required:

- a) Prepare the balance sheet of Palash Bank Limited as at December 31, 2022, in accordance with the International Financial Reporting Standards (IFRS) **(5 Marks)**
- b) Prepare the income statement of Palash Bank Limited for the year ended December 31, 2022
(5 Marks)
- c) Calculate the provision for doubtful debts as a percentage of total loans and advances and list the implications of this provision on the bank's financial health.

(5 Marks)

QUESTION FIVE

Pendo Group consists of Parent Company Masion and Subsidiary Company Bungalow. On January 1, 2023, Masion acquired 80% of Bungalow for Ksh 1,200,000. At the acquisition date, the fair value of Bungalow identifiable

net assets was Ksh 1,500,000, recorded retained earnings of Ksh 400,000 and Share capital of Ksh 1,100 500

Required:

- (a) Calculate the goodwill arising from the acquisition. **(4 Marks)**
- (b) Prepare the consolidation journal entries to eliminate the investment in Bungalow and record the goodwill. **(5 Marks)**
- (c) Discuss six types of adjustments are typically required when consolidating branch accounts with the head office accounts **(6 Marks)**

QUESTION SIX

Bimar General Insurance Company had the following balances for the year ended December 2017

Bad debts (Fire)	5,000
Bad debts (Marine)	12,000
Auditors fees	1,200
Directors fees	5,000
Share transfer fees (income)	800
Bad debts recovered	1,200
Fire fund 1.1.2017	250,000
Marine fund 1.1.2017	820,000
Claims paid and outstanding (fire)	180,000
Claims paid and outstanding (marine)	380,000
Additional reserve (fire) 1.1.2017	50,000
Survey expenses (fire)	10,000
Depreciation	35,000
Interest, dividends and rents received	14,000
Exchange difference (gain)	300
Miscellaneous receipts	5,000
Profit on sale of land	60,000
Fire premium less reinsurance	600,000
Marine premium less reinsurance	1,080,000
Management expenses (fire)	145,000
Management expenses (marine)	400,000

Commission earned on insurance ceded (fire) 10,000
Commission earned on insurance ceded (marine) 20,000

Notes: In addition to the usual reserves additional reserves in the case of fire are to be increased by 5% of net premiums.

Reinsurance premiums received totalled Sh150,000 for fire and Sh320,000 for marine. Management expenses do not include commission. The net premium income for fire in 2016 was Sh500,000. Commission on direct business is 5%.

Required:

- a) Prepare Fire revenue account
(5 Marks)
- b) Prepare Marine revenue account
(5 Marks)
- c) Profit and Loss account for the year ended 2017
(5 Marks)