



**Riara School of Business**

*Nurturing business innovators*

**JANUARY – APRIL 2024, TRIMESTER**

**EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION**

**(ACCOUNTING SPECILISATION)**

**RAC 303: CORPORATE FINANCIAL REPORTING**

**DATE: 20<sup>TH</sup> APRIL 2024**

**TIME: 2**

**HOURS**

**GENERAL INSTRUCTIONS:**

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

**SPECIAL INSTRUCTIONS**

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.
11. Fasten the supplementary pages to the inside back cover of this booklet

**QUESTION ONE (COMPULSORY) – (30 MARKS)**

- a) IAS 36-Impairment of Assets, requires firms to periodically carry out impairment reviews especially where there is an indication that an asset might be impaired. Identify three internal and three external factors that might indicate an asset is impaired. **(6 marks)**
- b) Global Ltd owns a manufacturing plant with a carrying value of Sh.8,490,000. the government has just imposed export quotas on the products manufactured by the plant. Following this development, Global Ltd has prepared the following estimates of cash flows from the usage of the plant over the next five years:

<b>Year</b>	<b>Cash flows Sh “000”</b>
1	2,300
2	2,110
3	1,570
4	1,040
5	2,330

**Additional information:**

1. The plant could be currently sold for Sh 6,600,000. Selling costs would amount to Sh 150,000.
2. Cost of capital is 15%.
3. Present value factor at:

<b>Year</b>	<b>15%</b>	<b>10.5%</b>
1	0.8696	0.9050
2	0.7561	0.8189
3	0.6572	0.7412
4	0.5717	0.6707
5	0.4972	0.6069

**Required:**

- i. Calculate the recoverable amount of the plant. **(6 marks)**
  - ii. Calculate the impairment loss (if any) on the plant. **(2 marks)**
- c) Discuss **four (4)** qualitative characteristics of financial information **(8 marks)**
- d) Evaluate the following terms as used in the financial statements
- i. Materiality **(2 marks)**
  - ii. Accruals concept **(2 marks)**
  - iii. Accruals concept **(2 marks)**
  - iv. Going concern **(2 marks)**

## QUESTION TWO

- a) With reference to IAS 14 (segmental reporting), highlight **FIVE** items that needs to be disclosed for each reported segment. **(5 marks)**
- b) Identify any **FIVE** problems encountered in segmental reporting. **(5 marks)**
- c) The following information is extracted from the books of XYZ Limited for the year ended 31<sup>st</sup> December 2023. The company sells its products in both the domestic and foreign markets.

	Sh “000,000”	Sh “000,000”
<b>Sales:</b>		
Domestic	7,625	
Europe	1,676	
North America	2,325	
Asia	<u>7,66</u>	12,392
<b>Sales between geographical areas (not included above):</b>		
Domestic	523	
Europe	<u>760</u>	1283
<b>Operating profit</b>		
Domestic	3,575	
Europe	762	
North America	1,262	
Asia	<u>344</u>	5,943
<b>Other items</b>		
General corporate expenses		362
Interest expenses		274
Income from investments		165

<b>Identifiable assets</b>		
Domestic	10,260	
Europe	5,635	
North America	3,205	
Asia	<u>1,560</u>	21,020
General corporate assets		750
Investments		675

**Additional information:**

Operating profit includes Sh. 62,000,000 derived from inter-geographical segment sales.

**Required:**

Prepare a statement showing the financial information on the operations of XYZ limited in different geographical segments. **(10 marks)**

**QUESTION THREE**

- a) There are a number of stakeholders in an entity, each stakeholder has differing needs. What are the following stakeholders looking for in an analysis of an entity's financial statements?
  - (i) Shareholders **(2 marks)**
  - (ii) Potential investors **(2 marks)**
  - (iii) Bank and other capital providers **(2 marks)**
  
- b) In relation to IAS 12 (Income taxes):
  - i. Discuss the arguments in favour of and against providing for for deferred tax on revaluation of fixed assets **(4 marks)**

ii. Explain two merits and two demerits of the nil provision method of deferred taxation

**(4 marks)**

c) XYZ limited is a plastic toy manufacturer. Its sales have been adversely affected by imports and it has been changing towards the supply of plastic office equipment. Profits are expected to continue to fall for the next four years when they are expected at the year 2023 level. You are also informed that there will be a regular programme of plant renewal.

The following information is available.

Year ended 30 <sup>th</sup> December	Profit before depreciation and tax Sh “000”	Capital allowances Sh “000”	Depreciation Sh “000”
2020	6,250	2,000	400
2021	6,000	400	800
2022	5,500	400	1200
2023	5,000	2,800	800

Assume a corporation tax rate of 33%. On 1<sup>st</sup> January 2020, there was a nil balance on the deferred tax account.

**Required:**

Prepare a profit and loss account and a balance sheet extract for the corporation tax and deferred taxation for the four years (2022-2023) using flow through method.

**(6 marks)**

## QUESTION FOUR

- a) State and explain the **FIVE** complete set of financial statements. **(10 marks)**
- b) Explain the following terms with reference to international accounting standards 19 (Employee Benefits):
- i. Current service cost **(2 marks)**
  - ii. Past service cost **(2 marks)**
- c) ABC limited contributes Sh 30 million per annum to a pension scheme and treats the amount as current service cost pension expense. On 1<sup>st</sup> July 2016, the actuarial valuation of the scheme showed a deficit of Sh 600 million. The actuary recommended that the deficit be cleared within four years by paying Sh 150 million per year in addition to the annual service costs. The average remaining service life of employees in the scheme on 1<sup>st</sup> July 2016 was eight years.

### **Required:**

For each of the remaining eight service years of the employees, calculate the pension expense and pension liability or prepayment. **(6 marks)**