CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

ODEL

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 437: CORPORATE FINANCIAL REPORTING

STREAMS: Y4S2 **TIME: 2 HOURS**

DAY/DATE: TUESDAY 30/03/2021 **2.30 P.M – 4.30 P.M**

INSTRUCTIONS:

Answer question one and any other two questions

QUESTION ONE (30 MARKS)

Zeddy limited is a company quoted at the securities exchange. The following trial balance was extracted from the books of the company as at 31st October 2014:

Ordinary share capital (ksh 10 each)		300
8% preference share capital (ksh 10 each)		100
Revaluation reserve –property, plant & equipment		50
Share premium		100
Retained profits as at 31st October 2013		333.5
Intangible assets	215.5	
Property, plant and equipment	600	
Accumulated depreciation as at 1 November 2013		124.5
Trade receivable and trade payables	178	97.5
Bank overdraft		51
Inventory as at 1 November 2013	326	
Purchases	760	
Cash in hand	5	
Sales		1526
Administrative expenses	158	
Selling and distribution expenses	117	
Legal and professional expenses	54	
Allowance for doubtful debts(1 November 2013)		6

Financial assets at fair value	125	
Deferred tax		20
Instalment tax paid	30	
Suspense account	140	
	2708.5	2708.5

Additional information:

1. The intangible assets are being amortized over 5 years with the expense to be shown under cost of sales.
2. Property, plant and equipment is made up of the following:

Asset	Cost/valuation ksh 'million	Accumulated depreciation ksh 'million
Land at cost	250	-
Buildings	75	15
Plant and equipment	150	68.5
Furniture and fixtures	50	16
Motor vehicles	75	25
	600	124.5

2.Depreciation is charged as follows:

Buildings 2% on cost (included with administrative expenses)

Plant & equipment 8% on cost (included with cost of sales)

Furniture & fixtures 10% on cost (included with administrative expenses)

Motor vehicles 20% on the reducing balance charged as follows: 25% administrative expenses and 75% selling and distribution expenses.

3.Ksh 10 million should be transferred from the revaluation reserve to retained profits.

4.Allowance for doubtful debts is to be increased to ksh 18 million.

5.The financial assets at fair value are held for the long term. Their market value as at 31st October 2014 is ksh 130 million.

6.Current year tax is estimated at ksh 40 million and the taxable temporary differences amount to ksh 100 million considering all possible adjustments including valuations. Increase due to revaluation of financial assets amounts to ksh 2 million.

7. The suspense account consists of the acquisition of a business on a going concern basis. The assets acquired were as follows as at 30 September 2014 (date of acquisition)

	Ksh "million"
Financial assets-short tem	40
Receivables	30
Inventory	20
Bank balance	40
Payables	(20)

The adjustment for acquisition has not been reflected in the books of Zeddy limited.

A quick reviews of these assets shows that an impairment loss of ksh 20 million should be reported being the recoverable amount less the carrying amounts.

8.Inventory as at 31st October 2014 (including the ksh 20 million in note 7 above) is valued at ksh 426 million.

Required ;

The following statements for Zeddy limited in a format suitable for publication:

(a) Income statement for the year ended 31st October 2014
(b) Statement of changes in equity for the year ended 31st October 2014.
(c) Statement of financial position as at 31st October 2014. [30 marks]

QUESTION TWO

(a) Explain why a regulatory framework in needed, also including the advantages and disadvantages of IFRS over a national regulatory framework. [5 marks]

(b) Explain why accounting standards on their own are not a complete regulatory framework. [5 marks]
(c) Distinguish between principles based and rules based framework and discuss whether they can be complementary. [5 marks]
(d) Describe the IASB's standards-setting process including revisions to and interpretations of standards. [5 marks]

QUESTION THREE

(a) Explain the relationship of national standards setters to the IASB in respect of the standard setting process. [5 marks]

(b) The capital structure of Chama ltd as at 31st March 2017 was as follows:

	Ksh 'million'
6 million ordinary shares of ksh 5 each	30
2 million 10% cumulative preference shares	20
12% million convertible bond	25

Additional information:

1) During the year ended 31 March 2018, the company reported profit after tax of ksh 85.6 million.
2) On 1 May 2017, the company issued 1.5 million ordinary shares at full market price.
3) On 31st August 2017, the company made a rights issue of 1 ordinary share for every 4 ordinary share held on that date. The exercise price was ksh 36 share and the cum-rights price on the last quotation was ksh 48 per share.
4) On 1 January 2018, holders of ksh 10 million 12% convertible bonds exercise their conversion right. Each ksh 10,000 of the is convertible into 250 ordinary shares of ksh 5 each.
5) On 1 January 2018, the employees of the company were granted share options to purchase 1 million ordinary shares for ksh 30 each. The average market price was ksh 48 per share. As at 31 March 2018, none of the employees had exercised their options.
6) The corporation tax rate is 30%.

Required :

(i) Basic earnings per share (EPS) for the year ended 31March 2013. [7 marks]
(ii) Diluted earnings per share (EPS) for the year ended 31 March 2013. [8 marks]

QUESTION FOUR

(a) Wonderful ltd is a company that carries on business in the entertainment industry. For the past few past few year, the company has been making losses owing to the low prices charged by competitors. The company's statement of financial position as at 31 December 2013 was as follows:

Assets	
Non –current assets	3,600
Current assets	4,775
Total assets	8,375
Equity and liabilities;	
Equity: ordinary shares of ksh 1 each fully paid	10,000
Retained earnings	(9,425)
Non –current liabilities;	
8% cumulative preference shares (2,500,000 shares of ksh 1 par)	3,300
11% loan notes redeemable 2020	3,500
Current liabilities	1,000
Total equity and liabilities	8,375

The company has changed its marketing strategy and is now hoping to attract more customers. It is expected that the company will earn annual profits after tax of ksh 1,500,000 for each of the next five years. This figure is before an interest charge. Income tax is assumed to be at the rate of 30%. The directors are proposing to reconstruct the company and have frafted the following proposal fro discussion with shareholders:

1. To cancel the existing ordinary shares.
2. The 11% loan notes are to be retired and the holders issued in exchange with:
   - 3,000,000 14% redeemable notes fully paid up.
   - 2,000,000 ordinary shares of 0.25 each fully paid up.
3. The carrying value of the preference share capital above includes four years of dividend arrears. The preference shareholders arc to be issued with 2,000,000 ordinary shares of ksh 0.25 each fully paid up in exchange for the cancellation of these dividend arrears.
4. The existing ordinary shareholders will be issued with 3,500,000 ordinary shares of ksh 0.25 each fully paid.
5. In the event of liquidation, it is estimated that the net realizable value of the assets would be ksh 3,100,000 for the non-current assets and 3,500,000 for the current assets.

Required :

(a) Statement of financial position as at 1 January 2014 after the reconstruction had been effected. [15 marks]

(b) Computations to show the effect of the proposed reconstruction scheme on:

(i) Loan note holders [2 marks]

(ii) Ordinary shares [3 marks]
