



SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 302: ADVANCED FINANCIAL ACCOUNTING PRACTICE

DATE: 12TH APRIL, 2018

TIME: 4.00-6.00PM

INSTRUCTIONS TO CANDIDATES

- 1. Answer QUESTIONS ONE and any other TWO.**
- 2. Be clear, neat and orderly in your presentation**

QUESTION ONE

(COMPULSSORY)

(30MARKS)

- a) The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

- The business entity principle.
- The historical cost principle.
- The monetary principle.
- The matching principle.
- The conservatism principle.

Required:

For each of the principles listed above:

- (a) Explain its meaning. **(5marks)**
- (b) Justify its use. **(5marks)**
- (c) Explain any weaknesses associated with its use. **(5marks)**
- b) Define an associated company. Describe the accounting treatment of associated companies. **(6marks)**
- c) Give a brief view of international Accounting Standards. **(4marks)**
- d) In the absence of generally accepted theory, it becomes necessary to have a central authority that gives guidance on a choice of methods and approaches followed in the fulfillments of the objectives of the profession. Identify and explain the sources Accounting of Authority. **(5marks)**

QUESTION TWO

20MARKS

- a) Write brief notes on the following:-
 - i) Valuation and presentation of inventories (IAS 2 & KAS 6) **(4marks)**
 - ii) Depreciation Accounting (IAS 4 & KAS 5) **(4marks)**
 - iii) Related Party Disclosures (IAS 24 &KAS 15) **(4marks)**
 - iv) Capitalization of borrowing costs (AIS23) **(4marks)**
- b) According to section 154 of the Act, a company shall be deemed to be a subsidiary if, but only if. Discuss. **(4marks)**

QUESTION THREE

20MARKS

- a) **H** holdings Ltd acquired the entire shareholding of **S** subsidiaries Ltd on 31st December 2017 for Kshs 35,000,000. The respective Balance Sheet as on first date of consolidated were as follows:

	(H)	(S)
	Holding Ltd	subsidiary Ltd
	Ksh000	Ksh000
Fixed Assed	36,000	27,000
Investments in (S)	35,000	-
Current Assets Stock	20,000	7,000
Debtors	18,000	8,000

Bank	<u>2,000</u>	<u>1,000</u>
	<u>11,000</u>	<u>43,000</u>
Financed by:		
Share capital	60,000	25,000
Reserves	<u>36,000</u>	<u>10,000</u>
	96,000	35,000
Liabilities	<u>15,000</u>	<u>8,000</u>
	<u>11,000</u>	<u>43,000</u>

The fair value of Assets is equal to the book value

Requires:

Draw the Holding (H) consolidated balance sheet. **(15marks)**

b) Discuss various desirable characteristics of accounting reports. **(5marks)**

QUESTION FOUR

20MARKS

- What do you understand by International Accounting Standard Board (IASB)? Discuss its functions. **(10marks)**
- According to IAS 3, define Accounting for Joint Ventures and write short notes on the types of Joint Ventures. **(8marks)**
- Explain accounting assumptions as stated in KAS 1. **(2marks)**