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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 7th December, 2023
Time: 2.30pm –4.30pm

KAC 400 - ADVANCED FINANCIAL ACCOUNTING PRACTICES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CASE STUDY

Unilever is well known around the world for its brands. On any given day, two billion people use Unilever products to look good, feel good and get more out of life. The company manufactures more than 400 brands focused on health and wellbeing. Many Unilever Brands, Dove, Axe, Ben and Jerry's, Lipton, are respected around the world and have become household names. The finance team developed a financial planning process to support their role in driving the success of these brands and others. Unilever achieved a strong set of financial results in 2019. Underlying sales growth in 2019 was 6.5%, up from 3.5% in 2009, while 60% of Unilever categories are growing share despite challenging market conditions and a difficult economic climate. Its strategy is to focus on volume growth and strengthening the competitive position of the company's brands.

Commenting on the company's performance, CEO Paul Polman said: "In 2019 we have made significant progress in the transformation of Unilever to a sustainable growth company despite difficult markets and an unusual number of significant external challenges. Our overall performance was driven by our growth in emerging markets and the Home Care and Personal Care categories. We invested heavily in our brands and exit the year with positive momentum. In Foods, whilst price increases have impacted volumes, we have grown in line with our markets and gained share in many of our key businesses." In the past several years Unilever also enhanced their position in attractive, high-growth categories and purchased a portfolio of desirable brands through company acquisitions, joint ventures or Greenfield investments.

Case Context

You have been recently appointed to a start up project as a result of one of the activities mentioned above. You are facing demands on your time from your colleagues, boss and subordinates. At the same time, you are receiving requests from headquarters and specialized support functions including Tax, Treasury, and Insurance. You constantly have to prioritize and there is danger that important tasks get delayed, or worse, never get done. Since Financial Planning and Reporting are one of the major activities you are responsible for you must quickly familiarize yourself with these Unilever financial processes.

You are given four areas of importance to focus your activities. The areas are:

- Inventory Valuation and Cost of Goods Sold.
- Impairment of Assets.
- Borrowing Costs.
- Capital Structure and Reconstruction.
- Business combinations.

- a) Having read the case study above, you are required to:
- i) Explain the disclosure requirements of inventories according to IAS 2. (6 marks)
 - ii) According to the IAS 36 on impairment of assets, explain what cash generating unit and corporate assets are and two alternative approaches that are adopted in allocating the corporate assets to the cash generating units. (8 marks)
 - iii) Discuss the accounting treatment of borrowing costs as per IAS 23. (6 marks)
 - iv) Explain the methods of calculating the purchasing consideration in the amalgamation of companies. (6 marks)
- b) Explain the various terms used in business combinations (4 marks)

QUESTION TWO (20 MARKS)

- a) Explain three approaches to human resource accounting. (6 marks)
- b) Give the advantages of including the “value added” statements in the annual reports of companies. (4 marks)
- c) The following is the summarized trading, profit and loss account of Manta Coffee Ltd for the year ended 31st March 2018:

Manta Coffee Ltd. Trading, Profit and Loss Account for the year ended 31 March 2018

	Sh.	Sh.
Sales		30,324,000
Cost of sales		<u>19,620,000</u>
Gross profit		10,704,000
Less: Wages and salaries	3,480,000	
Interest on loan	800,000	
Depreciation	1,240,000	
General expenses	<u>450,000</u>	
		<u>5,970,000</u>
Profit before tax		4,734,000
Less corporation tax (at 30%)		<u>1,420,200</u>
Profit after tax		3,313,800
Dividends		<u>1,800,000</u>
Retained profit for the year		<u>1,513,800</u>

Required;

Using the two alternative approaches to the treatment of depreciation, prepare value added statements for the year ended 30th June 2018. (10 marks)

QUESTION THREE (20 MARKS)

- a) Financial statements are prepared for the use of decision makers who base their economic decision on these financial records. Explain four limitations experienced by users from the use of financial statements. (6 marks)
- b) Explain two methods of consolidating subsidiary entities. (4 marks)
- c) XYZ Ltd. contributes Sh.60 million annually to a pension scheme and treats the amount as being equivalent to annual service cost. On 1st January 2016, the actuarial valuation showed that the scheme had a surplus of Sh.340 million. The actuary recommended non-contribution to the scheme for three years then a resumption of annual contributions of Sh.40 million per annum for the following seven years before reverting to the standard annual contribution of Sh.60 million. The average remaining service years of employees in the scheme on 1st January 2016 was ten years.

Required:

For each of the remaining ten service years of the employees, calculate the pension expense and pension liability or prepayment. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Many corporate boards have now agreed on the need to take responsibility for any potential or actual social impacts caused by their company's activities. This is done through a social responsibility report. In light of this:
- i) Discuss the main issues that may be addressed by a company in its social responsibility report. (5 marks)
- ii) Explain the benefits that would accrue to a company from the reporting of its social responsibility activities. (5 marks)
- iii) Comparing conventional financial accounting reporting with social responsibility reporting, identify the challenges peculiar to social responsibility accounting. (5 Marks)
- b) Highlight the arguments against human resource accounting. (5 marks)

QUESTION FIVE(20 MARKS)

Bidii Supermarket Limited is a quoted company which runs 22 Supermarket stores throughout Kenya. 12 of these stores are situated in and around Nairobi and all 12 are supplied by Bidii's central godown situated in the industrial area of Nairobi. Pricing, marketing and human resources policies are decided centrally by Bidii. All stores are managed in the same way and management run the business on a store-by-store profit basis. Recently, the Ruiru General Store has seriously underperformed against its budget for the year ending 31 December 2018. Rising insecurity in the area together with difficulties in obtaining access to the store have seriously adversely affected its financial performance.

The Ruiru General Store together with the Kahawa Store were purchased from Wendani Superstores on 1 January 2014 for Sh.25 million and Sh.25 million and Sh.15 million respectively plus goodwill of Sh.8 million for both stores. The stores are being depreciated on the straight-line method to nil residual value over 20 years. The goodwill is being amortised to nil on the straight-line basis over the same period. The Ruiru General Store could be sold for Sh.15 million net. Its value in use is Sh.20 million. Management have performed a "bottom-up" test in relation to the goodwill and the purchase prices of the stores and are satisfied that a "top-down" test is not needed.

Required:

- a) Explain what is meant by the phrases "bottom-up test" and "top-down test" as used in IAS 36: Impairment of Assets. (5 marks)
- b) State in detail how the impairment loss should be recognized for the Ruiru General Store cash-generating unit in the financial Statements for the year ending 31 December 2018: neither depreciation nor amortization has yet been charged for this period. State also the carrying value of the Ruiru General Store cash-generating unit after the impairment loss has been recognized. Ignore deferred tax. (10 marks)