BACHELOR OF BUSINESS LEADERSHIP

END OF SEMESTER EXAMINATION

BUA 3313 FINANCIAL ACCOUNTING III - ONLINE

Day: Tuesday

Time: 8am -10am

Instructions:

- Answer Question One and Any Other Three Questions
- Show all your workings
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One

a. **Jinja Plc**., bought a production machine on **7th July 2024** for **sh. 350,000** on credit. Freight cost was **sh 10,000**. Jinja Plc., settled all its obligations with the seller on **20th July 2024**. The term of trade was **FOB Shipping Required** Prepare journal entries in the books of **Jinja Plc**., to record these transactions **(8 Marks)**

b. Explain **THREE** components of equity within the context of a company **(6 Marks)**

c. Discuss the recognition criteria for provisions **(IAS 37)** **(6 Marks)**

d. Explain the following two terms:

   i) Defined contribution plan **(2 Marks)**

   ii) Subsidiary **(2 Marks)**

e. In the post-acquisition period,, the parent, sold goods to its subsidiary, at a price of **sh. 6 million**. These goods had cost **Payton sh 4 million**. **Half** of these goods were still in the inventory of **Silverstone** at its year end of **31st December 2024**.

Required

Determine the Provision for Unrealized Profit (PUP) as at **31st December 2024**

(6 Marks)

Question Two

Zambezi Holdings is the parent company of Northern Inc. The following are the statements of financial position for both companies as at **31st October 2025**.

	Zambezi Holdings		**Northern Inc.**	
	Sh.'000'	**Sh.'000'**	**Sh.'000'**	**Sh.'000'**
Non-current Assets				
Property Plant and Equipment		4,200		3,300
Investments: shares in Northern Inc at cost		3,345		-
Current assets				
Inventory	1,500		800	
Receivable	1,800		750	
Bank	600		350	
		3,900		**1,900**
Total assets		**11,445**		**5,200**
Equity and liabilities				
Equity				
Ordinary Share Capital (par = sh. 1)		9,000		4,000
Retained earnings		525		200
		9,525		**4,200**
Current liabilities				
Payables	1,220		200	
Tax	700		800	

		<u>1,920</u>		**<u>1,000</u>**
Total equity and liabilities		**<u>11,445</u>**		**<u>5,200</u>**

The following information is also available:

1. Zambezi Holdings purchased **70%** of the **shares** in Northern Inc a **year ago**, for **sh. 3,200,000** when Northern Inc had retained earnings of Sh.**60,000**. On the date of acquisition, the fair value of each share of Northern Inc was **sh. 0.5**

2. During the year Zambezi Holdings sold goods to Northern Inc., at a price of **Sh**.**240,000**. These goods were invoiced at a profit mark-up of **20%**. **Half** of the goods are still in Northern Inc 's inventory at the year end.

3. Northern Inc., owes Zambezi Holdings Sh.**30,000** at **31st October 2025** for goods it purchased during the year.

4. The goodwill in Northern Inc., has impaired by **sh. 20,000** to date

Required

a. Prepare the net assets list of the subsidiary **(4 Marks)**
b. Compute the closing balance of the goodwill in the subsidiary. **(3 Marks)**
c. Determine consolidated reserves balance **(3 Marks)**

Question Three

The following information is given about a funded defined benefit plan for the year ended **31st December 2025.** To keep the computations simple, all transactions are assumed to occur at the year-end.

Present value of obligations at year start	Sh. 400 million
Market value of plan assets at year start	Sh. 390 million
Discount rate at start of year	10%
Current service cost	Sh. 14 million
Benefits paid	Sh. 26 million
Contributions paid	Sh. 34 million
Present value of obligations at year end	Sh. 530 million
Market value of plan assets at year end	Sh. 370 million

There was a variation in the benefit terms during the year, which resulted in a past service cost of **Sh. 100 million**.

Required:

a. Compute the net pension finance and net actuarial remeasurement **(6 Marks)**
b. Determine the net pension asset or liability (**2 Marks)**
c. Following the above, the pension is wound up at the year end. The market value of the plan assets is unchanged by the curtailment. But the liability is affected. The employees departing the scheme agree to receive the plan assets in full plus a further payment of **Sh. 167 Million**. The cash was paid just before the year end. Determine the gain or loss upon the curtailment (**2 Marks)**

Question Four

a. Explain **FIVE** reasons why some medium sized entities in Kenya do not fully comply with the international financial reporting standards **(5 Marks)**
b. With the aid of an illustration, discuss the recognition criteria of a lease liability **(5 Marks)**

Question Five

The following terms relates to a non-cancellable lease between a lessor and lessee for a production equipment:

i) Inception date is **1st January 2022**
ii) Annual lease payments **due at the beginning of each year** is **Sh. 80,000**
iii) Residual value of equipment at the end of the lease guaranteed by the lessee is **Sh. 20,000**
iv) Lease period is **4 years**
v) Useful life of the equipment is **4 years**
vi) Lessor's implicit rate is **12%** and lessee's incremental borrowing rate is **14**%
vii) The lessees use the **straight-line method of depreciation** for the equipment.

Required

a. Calculate the fair value of the lease liability (**4 Marks)**
b. Prepare an amortization schedule in the books of the lessee (**6 marks)**