



KAIMOSI FRIENDS UNIVERSITY
THIRD YEAR SECOND SEMESTER UNIVERSITY EXAMINATIONS
2025/2026 ACADEMIC YEAR

SPECIAL EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE
COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING
COURSE CODE: BCA 319

DAY/DATE: 24/06/26

TIME: 9-11 A.M.

INSTRUCTIONS TO STUDENTS

1. **ANSWER QUESTION ONE AND ANY OTHER TWO FROM THE CHOICES GIVEN.**
2. **PHONES, SMART WATCHES, EAR PHONES OR ANY OTHER UNAUTHORIZED DIGITAL AND AI GADGETS AND APPLICATIONS ARE NOT ALLOWED IN THE EXAMINATION ROOM.**
3. **ANSWER ALL QUESTIONS IN THE EXAM ANSWER BOOKLET PROVIDED.**
4. **DO NOT WRITE ON THIS QUESTION PAPER.**
5. **ALL KAFU EXAMINATION RULES AND REGULATIONS APPLY.**
6. **DURATION OF EXAMINATION: TWO (2) HOURS**

KAFU observes ZERO tolerance to examination cheating.
This paper consists of FIVE printed pages. Please turn over.



QUESTION ONE (30Marks)

- a) “Inflation accounting is an elegant but useless creature with a prodigious appetite for extra data. It is the sterile offspring of a scandalous marriage between high financial economics and mismanaged economies”

Required:

- i. In the light of the above statement, summarize some of the arguments that can be advanced to defend Historical Cost Accounting. **(8 marks)**
 - ii. What flaws exist under Historical Cost Accounting that can encourage setting of an accounting standard for firms operating under inflationary conditions? **(8 marks)**
 - iii. Provide the criteria that should be used in the selection of appropriate accounting measurement in business reports. **(2 marks)**
- b) Distinguish between defined contribution plan and defined benefit plan **(6 marks)**
- c) ABC Company held shares in XYZ Company which it bought for kshs. 21000 in 2021 when an index of the general price level was kshs. 105. At the end of 2024 the market price of shares was kshs. 18000 and the index was kshs. 125. By 2025 the market price of the shares was kshs. 20,000 and the index was kshs. 130.

Required

- i. Calculate the CPP value of the shares at the end of 2024 and 2025 **(4 marks)**
- ii. Under CPP accounting, what gain or loss would be shown with respect of the shares **(2 marks)**

QUESTION TWO (20Marks)

- a) State five characteristics of dependent branches **(5 marks)**
- b) Pagare Ltd. has a branch at Indore where goods are sold for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office. On 31st March 2025, the assets at the branch were as follows:-

	Sh.
Stock	115,000
Debtors	28,000
Furniture	45,000

During the year ended 31st March 2025, the following transactions took place at the branch: -



	Sh	Sh
Cost of goods received from head office		850,000
Sales:		
Cash	711,400	
Credit	<u>275,100</u>	986,500
Cash collected from debtors		259,700
Cash discount allowed to debtors		4,400
Bad debts written off		3,600
Goods returned by debtors to branch		5,000
Cost of goods sent back by branch to head office		14,000
Expenses paid:		
Salaries		60,000
Rent and Rates		24,000
Petty Expenses		3,000

Furniture purchased by branch on 1st October 2018;

 Payment made by head office by cheque 20,000

On 31st March 2025 stock at branch was valued at Sh 147,000. Furniture is subject to depreciation @ 10% per annum.

Required: In the books of head office

- i) Branch account (3 marks)
- ii) Goods sent to branch account (3 marks)
- iii) Branch stock account (3 marks)
- iv) Branch debtors account (3 marks)
- v) Branch furniture account (3 marks)

QUESTION THREE (20Marks)

- a) Discuss five objectives of segment reporting (5 marks)
- b) Discuss five elements to be included under segment reporting (5 marks)
- c) The following information was extracted from the books of Keranga ltd for the year ended 31st March 2025

Details	Amount Kshs. Millions'	Amount Kshs. Millions'
Sales;		
Food products	5,650	
Plastics	625	
Pharmaceuticals	345	
Others	<u>162</u>	6782



Expenses;		
Food products	3,335	
Plastics	425	
Pharmaceuticals	222	
Others	<u>200</u>	4,182
Other items;		
General operating expenses		562
Income from investments		132
Interest expenses		65
Identifiable assets;		
Food products	7,320	
Plastics	1,320	
Pharmaceuticals	1,050	
Others	<u>665</u>	10,335
General assets		722

Additional information

- Inter-segment sales for the year ended 31st March 2025 were as follows

	Kshs. 'Millions'
Food products	55
Plastics	72
Pharmaceuticals	21
Others	7

- Operating profits includes sh. 33 million inter-segment sales
- Information about intersegment expenses is not available

Required;

Segmental financial information according to the requirements of IFRS **(10 marks)**

QUESTION FOUR (20Marks)

- Discuss six advantages of bills of exchange and promissory notes **(6 marks)**
- On 1st January 2024, Juma sold goods to Maua for shs. 8,000 and draws four bills of exchange against Maua. The first bill was kshs. 1,500 for one month. The second bill was kshs.1,000 for two months, the third bill was kshs. 2,000 for three months, the fourth bill was kshs.3,500 for four months. Maua accepts the bills and returns them to Juma. The first bill remained with Juma to maturity. The second bill was discounted with the bank at 12% per annum on 3rd January 2024.



On 8th January, the third bill was endorsed to Maria the creditor of Juma. On 15th January the fourth bill was sent to the bank for collection. All the amounts due were received on the due dates.

Required;

Record the above transactions in the books of Juma, Maua and Maria **(14 marks)**

QUESTION FIVE (20Marks)

- a) Discuss four sources from where regulatory frameworks regarding accounting standards are derived **(8 marks)**
- b) Market failure occurs when the market is unable to provide information to those who are in need of it. Because of the existence of market failure in providing accounting information, it has been argued that the accounting profession should be regulated so as to serve its users effectively and efficiently. In relation to this, discuss four specific reasons why market failure occurs **(8 marks)**
- c) The accounting profession in the world (and even for individual countries) is governed or regulated by various bodies. Discuss any two bodies **(4 marks)**

