



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE: 24/3/2021

TIME: 8.30-10.30 AM

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## INSTRUCTIONS:

*Answer question one and any other two questions.*

*Show your working where necessary.*

### QUESTION ONE (30 MARKS)

- a) Briefly explain the difference between external reconstruction and internal reconstruction. (6 marks)
- b) ABC Ltd. owns a manufacturing plant with a carrying value of Sh.7, 490,000.
- c) The government has just imposed export quotas on the products manufactured by the plant. Following this development, ABC Ltd has prepared the following estimates of cash flows from the usage of the plant over the next five years.

Year	Cash inflow Sh. `000`
1	2,300
2	2,110
3	1,570
4	1,040
5	2,330

#### *Additional information:*

- i. The plant could be sold currently for Sh. 5,600,000. Selling costs would amount to Sh. 100,000.

- ii. Cost of capital is 15%
- iii. Present Value factors at 15%

Year	DF
1	0.8696
2	0.7561
3	0.6572
4	0.5717
5	0.4972

**Required:**

- i. Recoverable amount of the plant. (6 marks)
  - ii. Impairment loss (if any) on the plant. (4 marks)
- c) Explain the following types of pension schemes
- i. Defined Contribution Plan (2 marks)
  - ii. Defined Benefit Plan (2 marks)
- d) A Kenyan Company Kilele Ltd. makes up its accounts to 31 December each year. On 15 September 2019 it purchased an item of machinery from Zawadi Company in Tanzania on credit for Tsh. 3,000,000 when the exchange rate was; Tsh. 20 for Ksh 1. The asset was paid for on December 15, 2019 when the exchange rate was Ksh. 21: Ksh 1.

**Required:**

- i. Show the journal entry in the books of Kilele Ltd to record the transaction on 15 September, 2019. (3 marks)
  - ii. In the books of Kilele Ltd, show Zawadi Company Account as at 31 December 2019. (3 marks)
- e) Explain the following terms as used in business combinations
- i. Holding company (2 marks)
  - ii. Subsidiary (2 marks)

## QUESTION TWO (20 MARKS)

The following is a balance sheet of Matata Limited as at 31 October 2019.

	<b>Book values</b> <b>Sh. "000"</b>	<b>Market values</b> <b>Sh. "000"</b>
<b>Fixed Assets</b>		
Goodwill		600
Patents & Trademarks	220	40
Freehold land and buildings	2,400	3,000
Plant & Vehicles	<u>1,000</u>	720
	4,220	
<b>Current Assets</b>		
Stock & Debtors	1,280	1,160
Short term investments	<u>300</u>	280
	1,580	
<b>Liabilities falling due within one year;</b>		
Trade creditor	(2,360)	
Bank overdraft	<u>(620)</u>	
<b>Total Assets</b>	<b>2,820</b>	
<b>Share Capital &amp; Reserves</b>		
<b>Called up share capital;</b>		
Sh.20, 7% cum preference shares fully paid (dividends are 3 years in arrears)		
	1,000	1,000
Ordinary shares of Sh.20 each fully paid	4,000	4,000
Share premium account	1,200	1,200
12% mortgage loan secured on freehold land	1,200	1,200
Profit & Loss A/C	<u>(4,580)</u>	(4,580)
	<b><u>2,820</u></b>	

**The following additional information is also available:**

1. Scheme costs are estimated at Sh. 96,000
2. Preference shares rank in priority to ordinary shares in the event of winding up.
3. The bank had indicated that they would advance a loan of up to Sh.1,000,000 provided that the overdraft is cleared and a second mortgage on the freehold land is given.
4. To ensure speedy production of an intended new product, it would be necessary to expend Sh. 400,000 on new plant and Sh. 300,000 on increasing stocks.
5. The trade creditors figure of Sh.2,360,000 includes Sh. 380,000 that would be preferential in a liquidation.

**Required**

- a) Suggest a scheme of capital reduction. (10 marks)
- b) Write up the capital reduction account. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Boma building contractors provided the following information pertaining to its uncompleted contracts as at 31 October, 2020.

Contract	A	B	C	D
Date commenced	1 Nov 2019	1 Dec 2019	1 Nov 2019	1 Aug 2020
Expected completion date	28 Feb 2021	31 Jan 2021	30 Nov 2019	31 Jan 2022
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Costs incurred up to 31 Oct 2020	127,200	45,600	12,000	3,200
Estimated further costs to completion	28,800	12,000	1,600	49,600
Value of work certified as at 31 Oct 2020	160,000	40,000	14,400	60,000
Contract Price	208,000	52,000	16,800	
Progress payments received and receivable as at 31 Oct 2020	140,000	32,000	-	-

**Required:**

- i. A schedule showing the profit (or loss) which should be recognized in the profit and loss account of Boma building contractors for each of the four contracts, for the year ended 31 October 2020. (10 marks)
- ii. The value of work in progress (WIP) which should be reported in the balance sheet of Boma building contractors in respect of each of the four contracts as at 31 October 2020. (4 marks)
- b) Explain the following terms as used in accounting. Give TWO examples in each case.
- i. Operating activities (2 marks)
- ii. Investing activities (2 marks)
- iii. Financial activities (2 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain FIVE ways of improving the liquidity of a Limited Liability company. (10 marks)
- b) Explain FIVE social responsibilities of a business enterprise. (10 marks)

**QUESTION FIVE (20 MARKS)**

The statement of financial position of H Limited and S Limited as at 31 December 2019 are as follows:

	<b>H Ltd</b>	<b>S Ltd</b>
	<b>Sh. “000”</b>	<b>Sh. “000”</b>
<b><u>ASSETS</u></b>		
<b>Non – Current Assets</b>		
Property, Plant & Equipment	14,000	8,000
Patents	<u>5,000</u>	<u>2,000</u>
	19,000	10,000
<b>Current Assets</b>		
Inventory	5,000	4,000
Bank	18,000	6,000
Accounts receivable	<u>4,000</u>	<u>4,000</u>
	<u>27,000</u>	<u>14,000</u>
	<b><u>46,000</u></b>	<b><u>24,000</u></b>
<b><u>EQUITY &amp; LIABILITIES</u></b>		
<b>Equity</b>		
Ordinary Share Capital (Sh. 100 each)	15,000	10,000
Retained earnings	<u>25,000</u>	<u>6,000</u>
	40,000	16,000
<b>Current Liabilities</b>		
Accounts Payable	<u>6,000</u>	<u>8,000</u>
	<b><u>46,000</u></b>	<b><u>24,000</u></b>

**Additional information:**

1. H Ltd acquired 100% of the ordinary share capital of S Ltd on 30 September 2019 at Sh. 17 million when the retained earnings of S Ltd stood at Sh. 4 million. During the post-acquisition period, H Ltd made sales on credit to S Ltd and as at 31 December 2019, S Ltd owed H Ltd Sh. 1.5 million which is included in the accounts payable of S Ltd and the same amount is included in the accounts receivable of H Ltd.
2. The shareholders of S Ltd were paid in cash and this had not been incorporated in the bank account of H Ltd.

**Required:**

- |    |   |            |
|----|---|------------|
| a) | Cost of Control account   | (2½ marks) |
| b) | Retained earnings account   | (2½ marks) |
| c) | Group accounts receivable account   | (2½ marks) |
| d) | Group accounts payable account  | (2½ marks) |
| e) | Consolidated Statement of Financial Position as at 31 <sup>st</sup> December 2019 | (10 marks) |