



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE:

TIME:

INSTRUCTIONS:

- i) Answer question one and any other two questions.
- ii) Marks allocated for each question are shown at the end of the question.
- iii) Show your working where necessary.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) The following are extracts of the consolidated results for Jamvi Company for the year ended 31 December, 2020.

Consolidated Income Statement (Extract)

	Sh “000”
Group profit before tax	90
Income tax expense	<u>(30)</u>
Profit after tax	60
Profit attributable to;	
Owners of the parent	45
Non – controlling interest	<u>15</u>
	<u>60</u>

Consolidated Statement of Financial Position (Extract)

	2019	2020
	Sh “000”	Sh “000”
Non – controlling interest	<u>300</u>	<u>306</u>

Required:

Calculate the dividends paid to non – controlling interest during the year (5 marks)

- b) ABC Ltd. owns a manufacturing plant with a carrying value of Sh.7, 490,000. 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%

Required:

- i) Recoverable amount of the plant. (6 marks)
- ii) Impairment loss (if any) on the plant. (3 marks)

NOTE: Discount factors to be rounded to four (4) decimal places.

- c) 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)
- d) Explain five (5) differences between Human Resource Accounting and Social Accounting (10 marks)

QUESTION TWO (20 MARKS)

HB Ltd. has been experiencing dwindling sales in its business operations due to competition from other agents dealing in telecommunication equipment. On 1 January 2019, HB Ltd. decided to diversify its operations to the information technology (IT) industry by acquiring SL Ltd. a company dealing in the manufacture of IT equipment and software design. The summarized financial statements of HB Ltd. and SL Ltd. were as follows:

Income statements for the year ended 30 September 2019

	HB Ltd.	SL Ltd.
	Sh. "000"	Sh. "000"
Sales revenue	60,000	24,000
Cost of sales	<u>(42,000)</u>	<u>(20,000)</u>
Gross profit	18,000	4,000
Other income: Interest received	75	-
Dividend received	<u>400</u>	<u>-</u>
	18,475	4,000
Expenses:		
Distribution costs	(3,500)	(100)
Administrative expenses	(2,500)	(100)
Finance costs	<u>-</u>	<u>(200)</u>
Profit before tax	12,475	3,600
Income tax expense	<u>(3,000)</u>	<u>(600)</u>
Profit after tax	<u>9,475</u>	<u>3,000</u>

Balance Sheet as at 30 September, 2019

	HB Ltd.	SL Ltd.
	Sh. "000"	Sh. "000"
Non-Current Assets:		
Property, Plant & Equipment	19,320	8,000
Investments	<u>11,280</u>	<u>-</u>
	30,600	8,000
Current Assets:		
Inventories	5,000	3,000
Accounts receivable	4,200	3,400
Cash at bank	<u>5,800</u>	<u>1,600</u>
	<u>15,000</u>	<u>8,000</u>
Total assets	<u>45,600</u>	<u>16,000</u>
Capital & Liabilities:		
Equity & Reserves		
Ordinary Shares (Sh. 10 each)	10,000	2,000
Retained earnings	<u>25,600</u>	<u>8,400</u>
	35,600	10,400

Non- Current Liabilities		
10% Debentures	-	2,000
Current Liabilities:		
Accounts payable	7,500	3,200
Current tax	<u>2,500</u>	<u>400</u>
	<u>10,000</u>	<u>3,600</u>
Total Capital & Liabilities	<u>45,600</u>	<u>16,000</u>

Additional information:

1. HB Ltd. acquired 80% of the ordinary share capital of SL Ltd. for Sh. 10,280,000 and also acquired half of the 10% debentures in the company.
2. The fair value of the assets of SL Ltd. at the date of the acquisition were the same as their book values except for plant whose fair value was more by Sh. 3.2 million. As at 1 January 2019, the plant had a remaining useful life of four years. SL Ltd. depreciates plant on straight line basis based on cost.
3. During the post-acquisition period, HB Ltd. sold goods to SL Ltd. for Sh. 12 million. These goods had cost HB Ltd. Sh. 9 million. Subsequently, SL Ltd. sold some of the goods purchased from HB Ltd. at Sh. 10 million for Sh. 15 million.
4. On 30 September 2019, HB Ltd. and SL Ltd. paid dividends of Sh. 1,000,000 and Sh. 500,000 respectively.
5. Included in the accounts receivable and payable is Sh. 750,000 being the amount SL Ltd. owed HB Ltd.
6. Goodwill is considered to be impaired by 25% as at 30 December 2019. Goodwill is classified as an administrative expense by the group companies.

Required: Group balance sheet as at 30 September 2019.

QUESTION THREE (20 MARKS)

Nafuu Ltd. has had poor trading results for the last three years; reporting operating losses each year. The summarized balance sheet of Nafuu Ltd. as at 31 December 2019 appears as follows:

NAFUU LTD		
Balance Sheet as at 31 December 2019		
Non-Current Assets:	Sh.	Sh.
Premises		7,500,000
Machinery		8,750,000
Fixtures & fittings		3,187,500
Goodwill		1,250,000
Preliminary expenses		625,000
Patents		937,500
Investments		<u>2,000,000</u>
		24,250,000

Current Assets:

Stock	3,375,000	
Debtors	2,000,000	
Cash in hand	<u>712,500</u>	
	6,087,500	

Current Liabilities:

Creditors	(5,000,000)	
Bank overdraft	(812,500)	<u>275,000</u>
Net worth		<u>24,525,000</u>

Financed by:

Authorized, issued and paid-up Share capital:		
250,000 ordinary shares of Sh. 50 each		12,500,000
250,000 10% preference shares of Sh. 50 each		12,500,000
		<u>25,000,000</u>
Profit and Loss account (debit balance)		<u>(2,975,000)</u>
Shareholders' funds		22,025,000

Non-Current Liabilities:

10% Debentures		<u>2,500,000</u>
Capital Employed		<u>24,525,000</u>

Additional information.

- (i) The preference dividend is in arrears since 31 December.2016. The meeting passed a special resolution to reduce its share capital. An application was made to the court for confirmation of the capital reduction and this was sanctioned with effect from 31 December 2019.

The capital reduction scheme contained the following details:

- (ii) All intangible assets (including the debit balance on profit and loss account) to be written off.
- (iii) Other assets to be carried at the following valuation:

	Sh.
Premises	8,750,000
Machinery	7,500,000
Fixtures & fittings	2,500,000
Stock	3,125,000
Debtors	1,850,000
Investments	2,000,000

- (iv) The bank overdraft to be paid off in full.

- (v) The authorized share capital to be increased to 500,000 shares of Sh. 25 each.

- (vi) The burden of the reduction to be borne as follows:

- a) By cancelling the arrears of preference dividend which sacrifice is to be satisfied by issue to preference shareholders, one ordinary share of Sh.50 each for every five preference shares held, credited as fully paid.

- b) The ordinary shares issued to be written down to Sh. 12.5 per share and then converted into fully paid shares of Sh. 50 each share.
- (vii) To provide additional working capital and pay off the bank overdraft.
The chief executive of the company provided Sh.2, 500,000 in cash against the issue to him of Sh. 2,500,000 worth of 10% debentures secured on a floating charge.

Required:

- a) Capital reduction account (5 marks)
- b) Bank account (3 marks)
- c) Ordinary share capital account (2 marks)
- d) A revised balance sheet of Nafuu Ltd. as at 1 January, 2020. (10 marks)

QUESTION FOUR (20 MARKS)

- a) P Company acquired 75% of the ordinary shares of S Company on 1 January, 2019. The summarized income statements and movement of retained earnings of the two companies for the year ending 31 December 2019 are set out below.

	P Co.	S Co.
	Sh.	Sh.
Sales revenue	75,000	38,000
Cost of sales	<u>(30,000)</u>	<u>(20,000)</u>
Gross Profit	45,000	18,000
Administration expenses	<u>(14,000)</u>	<u>(8,000)</u>
Profit before tax	31,000	10,000
Income tax expense	<u>(10,000)</u>	<u>(2,000)</u>
Retained Profit for the year	<u>21,000</u>	<u>8,000</u>

Movement on retained earnings

Retained earnings brought forward	87,000	17,000
Profit for the year	<u>21,000</u>	<u>8,000</u>
Retained earnings carried forward	<u>108,000</u>	<u>25,000</u>

NOTE:

S Company had recorded sales of Sh. 5,000 to P Company during 2019. S Company had purchased these goods from outside suppliers at a cost of Sh. 3,000. One half of the goods remained in P Company's inventory at 31 December 2019.

Required; Prepare

- i) Consolidated income statement (10 marks)
- ii) Extract from the statement of changes in equity showing retained earnings. (3 marks)

- b) Vihiga Construction Company Ltd. entered into a contract to build an administration block for Rongo Manufacturers Limited on 15 October 2018. The construction was to start on 1 January, 2019 and be completed in three years. The contract price was Sh. 850,000,000

The following is the information pertaining to the contract from the books of Vihiga Construction Company Limited.

Year ended 31 December;

	2019	2020	2021
	Sh. "m"	Sh. "m"	Sh. "m"
Cost incurred in the year	300	330	120
Estimated cost to completion	300	270	-
Progress billings in the year	270	480	100
Cash collections in the year	240	360	200
General administration costs	15	20	18

Required:

Using the percentage of completion method;

Compute the realized gross profit for each of the three years.

(7 marks)

QUESTION FIVE (20 MARKS)

The following trial balance was extracted from the books of ABC Retirement Benefits Scheme for the year ended 30 September, 2020.

	Sh "000"	Sh "000"
Accumulated fund – 1 October 2019		461,560
Accrued expenses		240
General administrative expenses	2,840	
Cash & Demand deposits	23,460	
Change in market value of investments	22,640	
Commutations & Lump sum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer's normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out to other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Government Securities	263,605	
Members' normal contributions		18,240
Members' additional voluntary contributions		4,560
Pensions	7,640	
Equity investments – quoted	87,835	
Unpaid benefits		320
Equity investments – unquoted	19,990	
	<u>571,950</u>	<u>571,950</u>

Required:

- a) Statement of changes in net assets as at 30 September, 2020.

(10 marks)

- b) Statement of net assets as at 30 September, 2020.

(10 marks)