

TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

ACCOUNTING AND FINANCE DEPARTMENT

**COURSE/CLASS: BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE
THIRD YEAR**

UNIT : BAC 4307

UNIT NAME : ADVANCED ACCOUNTING II

SERIES : MAY 2016

TIME : 2 HOURS

INSTRUCTIONS TO CANDIDATES:

Answer Question One (Compulsory) and any other TWO questions.

QUESTION 1

Lowland Ltd acquired two subsidiaries as follows:

- 1 July 20X1 80% of Aviemore Ltd for sh.500 million when the carrying amount of net assets of Aviemore Ltd was sh.400 million (represented by share capital of sh.380 million and retained earnings of sh.20 million).
- 30 November 20X7 65% of Buchan Ltd for sh.200 million when the carrying amount of the net assets of Buchan Ltd was sh.160 million (represented by share capital of sh.120 million and retained earnings of sh.40 million).

The income statements of the companies for the year ended 31 March 20X8 were as follows:

	Lowland Ltd	Aviemore Ltd	Buchan Ltd
	Sh.000	Sh.000	Sh.000
Revenue	500,000	300,000	291,000
Cost of Sales	<u>(300,000)</u>	<u>(230,000)</u>	<u>(282,000)</u>
Gross profit	200,000	70,000	9,000
Net operating expenses	(100,000)	(50,000)	(15,000)
Finance cost	-	(5,000)	(21,000)
Investment income	<u>23,000</u>	<u>-</u>	<u>-</u>
Profit/(Loss) before tax	123,000	15,000	(27,000)
Income tax expense	<u>(30,000)</u>	<u>(5,000)</u>	<u>-</u>
Profit/(Loss) for the year	<u>93,000</u>	<u>10,000</u>	<u>(27,000)</u>

Extracts from the statements of changes in equity of the companies (all relating to retained earnings) for the year ended 31 March 20X8 were as follows:

	Lowland Ltd	Aviemore Ltd	Buchan Ltd
	Sh.000	Sh.000	Sh.000
Balance at 1 April 20X7	150,000	24,000	58,000
Interim dividends on ordinary shares	(20,000)	(5,000)	-
Total income (Loss) for the year	<u>93,000</u>	<u>10,000</u>	<u>(27,000)</u>
Balance at 31 March 20X8	<u>223,000</u>	<u>29,000</u>	<u>31,000</u>

Additional information:

- (1) On 1 April 20X7 Buchan Ltd issued sh.210 million 10% loan stock to Lowland Ltd. Interest is payable twice yearly on 1 October and 1 April. Lowland Ltd has accounted only for the interest received on 1 October 20X7.
- (2) On 1 April 20X7 Aviemore Ltd sold a freehold property to Lowland Ltd for Sh.80 million (Land element sh.30 million). The property originally cost sh.90 million (Land element sh.10 million) on 1 April 20X7. The property's total useful life was 50 years on 1 April 20X7 and there has been no change in the useful life since that time. Aviemore Ltd has credited the profit on disposal to "Net operating expenses".

- (3) The property, plant and equipment of Buchan Ltd on 30 November 20X7 was valued at sh.50million (carrying amount sh.35million) and was acquired in April 20X7. These assets have a total useful life of ten years. Buchan Ltd has not adjusted its accounting records to reflect fair values.
- (4) Lowland Ltd charges Aviemore Ltd an annual fee of sh.8.5 million for management services. This has been recognized by Lowland Ltd in "Investment Income".
- (5) Lowland Ltd has recognized its dividend received from Aviemore Ltd in "Investment Income".
- (6) In 20X2 the impairment review revealed a loss of sh.108 million in relation to Aviemore Ltd. A further loss of sh.18million has been identified in the current year. In addition, the impairment review in relation to the acquisition of Buchan Ltd has reviewed a loss of sh.10.2 million.

Required:

Prepare the consolidated income statement for Lowland Group for the year ended 31 March 20X8 and the movement on retained earnings and non-controlling interest (i.e minority interest) as they would appear in the consolidated statement of changes in equity for the year ended 31 March 20X8. (30 marks)

Note: Work to the nearest Sh'000.

QUESTION 2

At 1 July 2008 Galletas Co. Ltd had investments in two companies: Villa Ltd and Arico Ltd. On 1 April 2009 Galletas Ltd purchased 85% of the ordinary share capital of Masca Ltd for sh.300 million.

Extracts from the draft individual financial statements of the four companies for the year ended 30 June 2009 are shown below:

Income Statements

	Galletas Ltd	Villa Ltd	Masca Ltd	Arico Ltd
	Sh.000	Sh.000	Sh.000	Sh.000
Revenue	141,050	87,030	64,000	76,009
Cost of Sales	<u>(85,000)</u>	<u>(47,030)</u>	<u>(21,950)</u>	<u>(34,500)</u>
Gross profit	56,050	40,000	42,050	41,509
Operating expenses	<u>(10,320)</u>	<u>(13,600)</u>	<u>(9,512)</u>	<u>(12,408)</u>
Profit before taxation	45,730	26,400	32,538	29,101
Income tax expense	<u>(13,710)</u>	<u>(7,920)</u>	<u>(9,754)</u>	<u>(8,640)</u>
Profit for the year	<u>32,020</u>	<u>18,480</u>	<u>22,784</u>	<u>20,461</u>

Statements of financial position (extracts)

	Galletas Ltd	Villa Ltd	Masca Ltd	Arico Ltd
<u>Capital and reserves:</u>	Sh.000	Sh.000	Sh.000	Sh.000
Ordinary Share Capital (sh.1 shares)	400,000	350,000	200,000	300,000
Retained earnings	<u>156,000</u>	<u>58,000</u>	<u>60,500</u>	<u>34,000</u>
	<u>556,000</u>	<u>408,000</u>	<u>260,500</u>	<u>334,000</u>

Additional information:

- (1) A number of years ago Galletas Ltd acquired 210 million of Villa Ltd's Ordinary share capital and 90 million of Arico Ltd's Ordinary share capital. Balances on retained earnings at the date of acquisition were sh.19.5 million for Villa Ltd and sh.13million for Arico Ltd.
- (2) At the date of acquisition the fair value of Masca Ltd's assets and liabilities were the same as their carrying amounts except for its head office (Land and buildings) which had a fair value of sh.32 million in excess of its carrying amount. The split of the value of land to buildings is 50:50 and the buildings had a remaining life of 40 years at 1 April 2009. Masco Ltd's profits accrued evenly over the current year.
- (3) During the year Galletas Ltd sold goods to Villa Ltd and Arico Ltd at a mark-up of 15%. Galletas Ltd recorded sales of sh.14,950,000 and sh.20,700,000 to Villa Ltd and Arico Ltd respectively during the year. At the year-end inventory count Villa Ltd was found still to be holding half of these goods and Arico Ltd still held one third.
- (4) Galletas Ltd has undertaken annual impairment reviews in respect of all its investments and at 30 June 2009 an impairment loss of sh.1 million had been identified in respect of Arico Ltd.

Required:

Prepare the consolidated income statement of Galettas Ltd group for the year ended 30 June 2009 and an extract from the consolidated statement of financial position as at the same date showing all figures that would appear as part of equity. (20 marks)

QUESTION 3

- (a) The Technical Committee of the International Organization of Securities Commissions (IOSCO) and the International Accounting Standards Committee (IASC) agree that there is a compelling need for high-quality, comprehensive international accounting standards.

Required:

- Discuss briefly why the development of international accounting standards is considered to be important. (5 marks)
- (b) Explain the role that IOSCO has played in the development and promotion of international accounting standards. (5 marks)
 - (c) Catalan is a small developing country which passed a legislation to create a recognized professional accounting body two years ago. At the same time as the accounting body was created, new regulations governing financial reporting requirements of entities were passed. However, there are currently no accounting standards in Catalan.

Catalan's government has asked the new professional accounting body to prepare a report setting out the country's options for developing and implanting a set of high quality local accounting standards. The government request also referred to the work of the IASB and its International Financial Reporting Standards (IFRSs).

Required:

As an advisor to the professional accounting body, outline THREE options open to Catalan for the development of a set of high quality local accounting standards. Identify ONE advantage and ONE disadvantage of each option. (10 marks)
(Total marks =20)

QUESTION 4

The financial position of PUNGUANI Co. Ltd was as follows:

<u>Balance Sheet as at 30 September 2014</u>		
<u>Non-Current Assets (at written down values)</u>	Sh.000	Sh.000
Freehold Property	123,600	
Equipment	96,700	
Vehicles	<u>47,200</u>	
		<u>267,500</u>
<u>Current Assets</u>		
Inventories	82,300	
Accounts Receivable	44,500	
Bank and Cash	<u>12,400</u>	
	139,200	
<u>Less Current Liabilities</u>		
Accounts Payable	<u>(35,100)</u>	
Net Current Assets		<u>104,100</u>
		<u>371,600</u>
<u>Financed by</u>	<u>Authorized</u>	<u>Issued and</u>
<u>Share Capital</u>		<u>fully paid</u>
	Shs.000	Shs.000
7% preference share of sh.1.00 per share	100,000	100,000
Ordinary Share of Sh.1.00 per share	<u>500,000</u>	<u>350,000</u>
	<u>600,000</u>	450,000
<u>Reserves</u>		
Retained Earnings (debit balance)		<u>(78,400)</u>
		<u>371,600</u>

The Preference dividends are two years in arrears.

A reorganization scheme had been devised which had secured the necessary approval and contained the following provisions which were to become operative on 1 October 2014.

- 1) The ordinary shares are to be written down to sh.0.40 per share and then to be converted into new ordinary shares of sh.1.00 per share, fully paid.
- 2) The preference shareholders are to receive 50 million new ordinary shares of sh.1.00 per share, fully paid at par, in exchange for their preference shares.

- 3) The preference shareholders have also agreed to waive the rights to the dividend arrears and to accept in lieu 8million new ordinary shares of sh.1.00 per share, fully paid, in full settlement.
- 4) The creditors have agreed to accept 20million new ordinary shares of sh.1.00 per share, fully paid at par, in part of satisfaction of the sums due to them.
- 5) The debit balance on retained earnings account is to be written off.
- 6) Certain assets are to be revalued at the undernoted amounts.

	Sh.000
Freehold property	102,600
Equipment	64,400
Vehicles	30,700
Inventories	47,600
Accounts Receivable	41,600

Required:

- (a) Open, post all the necessary accounts to effect the reorganization of the company, and
- (b) Prepare the balance sheet of PUNGUANI Co. Ltd as at 1 October 2014 immediately after the reorganization has been effected.

QUESTION 5

The final accounts of Amani Ltd, a parent company, and its wholly foreign subsidiary, Flango Ltd in Tanzania were:

Summarized Balance Sheets as at 31 December 2015

	Amani Ltd		Flango Ltd	
	KSh.000	KSh.000	TSh.000	TSh.000
Tangible fixed assets		730,000		<u>250,000</u>
Investment in Flango Ltd		40,000		
Inventories	180,000		110,000	
Net Monetary Assets	<u>150,000</u>		<u>100,000</u>	
		<u>330,000</u>		<u>210,000</u>
		<u>1,100,000</u>		<u>460,000</u>
Share Capital		1,000,000		300,000
Reserves – Pre-acquisition			100,000	
- Post-acquisition			<u>60,000</u>	
		<u>100,000</u>		<u>160,000</u>
		<u>1,100,000</u>		<u>460,000</u>

Summarized Income Statements for the year ended 31 Dec 2015

	Amani Ltd	Flango Ltd
	KSh.000	TSh.000
Profit before tax	280,000	96,000
Taxation	<u>(120,000)</u>	<u>(36,000)</u>
Profit after taxation	160,000	60,000
Proposed dividends	<u>(100,000)</u>	<u>-</u>
	<u>60,000</u>	<u>60,000</u>

Amani had acquired Flango Ltd on 1 January 2015

Exchange rates were:

	Tsh = Ksh
1 January 2015	16 = Ksh.1
31 December 2015	10 = Ksh.1
Average for year 2015	12 = Ksh.1

Required:

- (a) Translate the Flango Ltd Income Statement and Balance Sheet into Kenya Shilling.
- (b) Prepare for the Amani Group, the consolidated income statement for the year ended 31 December 2015 and consolidated balance sheet at that date.
- (c) Show the composition of group reserves at 31 December 2015.