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 (Compulsory)

Abin Ltd prepares its consolidated financial statements in accordance with IFRS and has investments in two companies, Cob Ltd and Cros Ltd.

The draft, summarized statements of financial position of the three companies at 30 September 2007 are shown below:

	Abin Ltd Sh.000	**Cob Ltd Shs.000**	**Gros Ltd Shs.000**
ASSETS			
Non-Current Assets:			
Property, Plant and equipment	708,000	280,000	360,000
Investments	600,000	-	-
	1,308,000	280,000	360,000
Current Assets:			
Inventories	156,000	135,000	89,000
Trade and other receivables	74,000	24,000	19,600
Cash and cash equivalents	3,760	550	50
	233,760	159,550	108,650
Total Assets	1,541,760	439,550	468,650
EQUITY AND LIABILITIES			
Equity			
Ordinary Share Capital (Sh.1 shares)	700,000	200,000	400,000
Share premium account	200,000	50,000	10,000
Retained earnings	505,460	154,390	(11,150)
Total equity	1,405,460	404,390	398,850
Non-Current Liabilities			
Borrowings	30,000	5,000	28,700
Current Liabilities:			
Trade and other payables	67,800	15,660	14,550
Bank overdraft	-	-	4,150
Taxation	38,500	14,500	22,400
	106,300	30,160	41,100
Total equity and liabilities	1,541,760	439,550	468,650

Additional Information:

(1) Abin Ltd acquired 160 million of Cob Ltd's ordinary shares five years ago for Sh.2.25 per share. The retained earnings of Cob Ltd at that date were sh.37,500,000 credit. The fair value of a building held by Cob Ltd at the date of acquisition was Sh.100 million in excess of its carrying amount. The remaining useful life of the building at that date was 50 years.

(2) On 1 October 2006 Abin Ltd. acquired 160 million of Gros Ltd's ordinary shares for sh.1.50 per share. The retained earnings of Gros Ltd on that date were Sh.14,300,000 credit.

(3) On 1 May 2007 Abin Ltd made a loan to Cob Ltd of Sh.5 million. The loan is repayable on 30 April 2010. Abin Ltd has included the loan in trade and other receivables. Cob Ltd has disclosed the loan as long-term borrowings.

(4) During the year Cob Ltd sold goods to Abin Ltd at a mark-up of 50%. The goods cost Cob Ltd. sh.9 million. At the year-end one-third of these goods remained in inventory.

(5) Abin Ltd carries out annual impairment reviews of goodwill. At 30 September 2006 cumulative impairment losses in respect of goodwill arising on the acquisition of Cob Ltd of Sh.20 million had arisen. A further loss of Sh.4 million arose during the current year and needs to be recognized.

(6) Due to an unexpected downturn in the performance of Gros Ltd in the second half of the current year, Abin Ltd has calculated that an impairment in the carrying amount of its investment in Gros Ltd of Sh.3 million needs to be recognized.

Required:

(a) Prepare the consolidated statement of financial position of Abin Ltd as at 30 September 2007. (20 marks)

(b) Explain the concepts underlying the preparation of consolidated financial statements, illustrating those concepts with reference to the consolidated financial statements of Abin Ltd. (10 marks)

(Total = 30 marks)

QUESTION 2

The financial controller of Doncaster Ltd has prepared Doncaster Ltd's own draft income statement for the year ended 31 March 20X8 and its own statement of financial position as at that date. She has asked you, as assistant accountant, to prepare a statement of changes in equity for Doncaster Ltd before you and she start on the consolidation process. Notes (1) to (4) below are relevant to this task.

(1) Doncaster's draft income statement for the year ended 31 March 20X8 showed a profit for the year of sh.52,670,000. Its retained earnings at 1 April 20X7 were sh.236,550,000.

(2) During the year the company revalued a particular class of specialized plant and machinery to a total of sh.65,000,000. At the date of the revaluation, the relevant plant had a cost of sh.45,600,000 and accumulated depreciation of sh.21,550,000. Depreciation on the revalued amount of sh.6,780,000 was subsequently charged. If depreciation had been charged on cost the charge would have been sh.4,560,000. Doncaster Ltd wishes to make an annual transfer between the revaluation surplus and retained earnings in accordance with best practice.

(3) Doncaster Ltd had 1 million 5% redeemable sh.1 preference shares in issue at 31 March 20X7 and 20X8, which were issued and are redeemable at par. The dividend on these shares was paid on the last day of the year and is not reflected in the profit for the year.

(4) On 31 March 20X7 Doncaster Ltd had 2 million ordinary shares of sh.0.50 each in issue, also issued at par. On 16 January 20X8 the company issued a further 50 million ordinary shares of sh.0.50 each, at a price of sh.1.10 per share.

Following the preparation of Doncaster Ltd's statement of changes in equity you have been asked to calculate certain draft profit figures that will appear in Doncaster Ltd's consolidated income statement for the year ended 31 March 20X8. Notes(5) and (6) below are relevant.

(5) Doncaster Ltd has one subsidiary, Redcar Ltd, which was acquired on 1 October 20X7, and an associated company, Caterick Ltd, which has been held for a number of years. The following information is relevant.

	Redcar Ltd.	Catterick Ltd
Holding of ordinary shares by Doncaster	75%	45%
Profit for the year ended 31 March 20X8	Sh.45,700,000	Sh.10,340,000
Impairment in goodwill/investment in the year ended 31 March 20X8	Sh.5,000,000	Sh.1,000,000

All profits accrued evenly over the year.

(6) On 1 October 20X7 Redcar Ltd sold an item of plant to Doncaster Ltd. The Plant had cost Redcar Ltd. Sh.3,000,000 on 1 October 20X6, when its useful life was estimated at five years, and was sold to Doncester Ltd for sh.4,000,000. The estimated total useful life of the plant remained unchanged.

Required:

(a) Prepare Doncaster Ltd's own statement of changes in equity for the year ended 31 March 20X8. A total column is not required. (10 marks)

(b) Calculate the following figures as they would appear in Doncaster Ltd.'s consolidated income statement for the year ended 31 March 20X8.
   (i) Profit attributable to the owners of Doncster Ltd; and (5 marks)
   (ii) Profit attributable to minority interest. (5 marks)

(Total = 20 marks)

QUESTION 3

(a) Relevance and reliability are two of the four main qualitative characteristics of financial information, as set out in the IASB's Framework for the preparation and presentation of Financial Statements.

Required:

(i) Briefly discuss what is meant by these terms. (5 marks)

(ii) Give an example of when these two attributes could come into conflict and what the outcome is likely to be. (5 marks)

(b) The Framework includes the following definition:

"an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."

Required:

Explain this definition, using the example of a trade receivable. (5 marks)

(c) According to the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements, what is the objective of financial statements? Write your answer in no more than 35 words. (5 marks)

QUESTION 4

Kenya Computers Limited (KCL) wanted to expand its operations in Comesa region. On 1 April 2014 it purchased 60% of the ordinary share capital of Tazan Hi- Tech Limited (THTL) incorporated in Tanzania for Kshillings 26.4 million, when the rate of exchange was Tsh.12 = Ksh.1, and the reserves of THTL were Tsh.368 million. The functional currency of THTL is different from that of KCL.

The trial balances as at 31March 2016 were as follows:

	KCL	**THTL**
	Ksh'000'	**Tsh'000'**
Fixed assets at cost	30,000	360,000
Investment in THTL	26,400	-
Inventories at 31 March 2016	20,000	280,000
Accounts Receivable	10,600	48,800
Cash	1,100	12,400
Expenses (including depreciation)	30,000	225,000
Taxation Paid	3,500	22,600
Dividend paid	4,000	26,500
	125,600	975,300
Share Capital	12,000	100,000
Profit and Loss accounts at 1.4.2015	55,410	406,500
Trading income	40,000	300,000
Accumulated depreciation	12,000	144,000
Accounts payable	4,600	24,800
Dividend received	1,590	-
	125,600	975,300

Notes:

1. The rates of exchange between the Kenya Shilling and the Tanzanian shilling were as follows:

   1 April 2015 Tsh.9 = Ksh.1

   Average for the year 1 April 2015:

31 March 2015	Tsh.10 = Ksh.1
31 March 2016	Tsh.8 = Ksh.1

2. Group policy is to translate profit and loss account items at the average rate of exchange for the year. Goodwill on consolidation is tested for impairment and found to have lost 1/5 of its original cost for each of the years.

3. The retained profit in THTL for the year ended 31 March 2015 had been translated at the average rate for that year to Ksh.3.5 million.

Required:

(a) The consolidated income statement for the year ended 31 March 2016. (12 marks)

(b) The consolidated balance sheet as at 31 March 2016. (8 marks)

QUESTION 5

The financial position of Pangoni Ltd at 30 September 20X8 was as follows:

Balance Sheet as at 30 September 20X8

Non-Current Assets	Cost Sh.000	Depreciation Sh.000	Net Sh.000
Freehold Premises	100,000	20,000	80,000
Plant and Equipment	250,000	60,000	190,000
Motor vehicles	45,000	15,000	30,000
	395,000	95,000	300,000
Current Assets			
Inventories	40,000		
Accounts Receivable	30,000		
Bank	10,000		
	80,000		
Less			
Current Liabilities			
Accounts Payable			
	(140,000)		60,000
			240,000
Financed by			
Share Capital			
– Authorized			
150 million 7% preference Shares of sh.1.00 per share	150,000		
400 million Ordinary Share of Sh.1.00 per share	400,000		
	550,000		
– Issued and fully paid			
100 million 7% preference			

shares of sh.1.00 per share	100,000	
400million Ordinary Shares of		
Sh.1.00 per share Sh.0.75 paid.	300,000	
		400,000
Reserves		(160,000)
Profits and Loss (debit balance)		240,000

The 7% Preference dividends are two years in arrears.

The company had formulated an approved scheme of reorganization, to take effect on 1st October 20X8 which contained the following provisions.

1) The Ordinary Shares are to be written down to sh.0.25 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 ordinary shares of sh.1.00 per share, fully paid at par, in exchange for their preference shares.
3) In consideration for waving their rights to arrears of preference dividend, the preference shareholders have agreed to accept 10 million new ordinary shares of sh.1.00 per share, fully paid, in full and final settlement.
4) The creditors have agreed to take 100 million new ordinary shares of sh.1.00 per share, fully paid at par, in part satisfaction of the sums due to them.
5) The adverse balance on profit and loss is to be written off.
6) The undernoted revaluations are to be included in the accounts.

	Sh.000
Freehold premises	100,000
Plant and equipment	105,000
Motor vehicles	25,000
Inventories	36,000

and a provision for bad and doubtful debts is to be raised at sh.1 million.

Required:

(a) Post the appropriate accounts to effect the re-organization, and (12marks)

(b) Prepare the balance sheet of Pangoni Ltd immediately after all the reorganization entries have been posted. (8 marks)