# TECHNICAL UNIVERSITY OF MOMBASA <br> SCHOOL OF BUSINESS DEPARTMENT OF ACCOUNTING AND FINANCE 

DIPLOMA IN ACCOUNTANCY

## BAC 2213: ADVANCED ACCOUNTING 2

## END OF SEMESTER EXAMINATIONS

SERIES: APRIL/MAY 2016
TIME: 2 HOURS

## INSTRUCTIONS:

-This paper consists of Sections A and B.
-Section A is Compulsory. Answer any TWO questions in Section B.
-Mobile phones are not allowed into examination room.
-Cheating leads to disqualification.
-This paper consists of Seven printed pages.

## Question One

You are presented with the following summarized information for Norbreck pic and its subsidiary, Bispharn Ltd:

Profit and Loss Accounts for the year to 30 September 2007

|  | NORBRECK PLC | BIPHAM LTD |
| :---: | :---: | :---: |
|  | £000 | £000 |
| Turnover | 1,700 | 450 |
| Cost of sales | (920) | (75) |
| Gross profit | 780 | 375 |
| Administration expenses | (300) | (175) |
| Income from shares in group company | 120 |  |
| Profit on ordinary activities before taxation | 600 | 200 |
| Tax on profit on ordinary activities | (30) | (20) |
| Profit on ordinary activities after taxation | 570 | 180 |
| Dividends: paid | (90) | (50) |
| Proposed | (270) | (100) |
| Retained profit for the year | 210 | 30 |
| Retained profit brought forward | 220 | 70 |
| Retained profit carried forward | 430 | 100 |

## Balance Sheets at 30 September 2007

Fixed tangible assets
Investment Shares in group company
NORBRECK PLC
BIPHAM LTD

Current assets
Stocks
Debtors (including, for Norbreck plc, the dividend proposed by the subsidiary)
Cash at bank and in hand
Cash bank and in
40
Creditors (amounts falling due within one year)
Trade creditors
Other creditors, taxation and social security

Proposed dividend
Net current assets

| (270) | (100) |
| :---: | :---: |
| (510) | (330) |
| 110 | 80 |
| 1,790 | 520 |
| (460) | (20) |
| 1,330 | 500 |
| 900 | 400 |
| 430 | 100 |
| 1,330 | 500 |

Additional information:
a) Norbreck pic acquired 80 per cent of the shares in Bispham Ltd on 1 October 2004.

Bispham's profit and loss account balance as at that date was $£ 40,000$.
b) Goodwill arising on acquisition is to be written off against the group's retained profits.
c) Norbreck takes credit within its own books of account for any dividends receivable from Bispharn.

Required:
i) Prepare the consolidated profit and loss account for the year ending 31 September 2007.
(15 mks)
ii) Prepare the consolidated balancesheet as at 31 September 2007

## Question Two

The following summarized information relates to the Pagg group of companies.
Pagg Ltd, Ragg Ltd and Tagg Ltd

## Balance Sheet at 31 March 2010

|  | Pagg Ltd | Rag Ltd | Tagg Ltd |  |
| :--- | ---: | ---: | ---: | ---: |
|  | $£ 000$ | $£ 000$ | $£ 000$ |  |
| Tangible fixed assets at net book value | $\underline{2,000}$ | 900 | 600 |  |
| Investments |  |  |  | - |
| 800,000 ordinary shares in Ragg Ltd | 3,000 |  | - | - |
| 300,000 ordinary shares in Tagg Ltd | $\underline{1,000}$ | - | - | - |


|  | 4,000 | - | - |
| :---: | :---: | :---: | :---: |
| Current assets | 1,300 | 350 | 100 |
| Stocks | 3,000 | 200 | 300 |
| Debtors | 200 | 20 | 50 |
| Cash | 4,500 | 570 | 450 |
| Current liabilities | (4,000) | (270) | (400) |
| Creditors | 6,500 | 1,200 | 650 |
| Capital and reserves |  |  |  |
| Called-up share capital (all ordinary shares of $£ 1$ each) | 5,500 | 1,000 | 500 |
| Profit and loss | 1,000 | 200 | 150 |
|  | 6,500 | $\underline{1,200}$ | 650 |

Additional information:

1. Pagg acquired its shareholding in Ragg Ltd on 1 April 2005. Ragg's profit and loss account balance at that time was $£ 600,000$.
2. The shares in Tagg Ltd were acquired on 1 April 2009 when Tagg's profit and loss account balance was $£ 100,000$.
3. All goodwill arising on consolidation is amortised in equal amounts over a period of 20 years commencing from the date of acquisition of each subsidiary company.
4. At 31 March 2010, Ragg had in stock goods purchased from Tagg at a cost to Ragg of $£ 50,000$. These goods had been invoiced by Tagg at cost plus 20 per cent. Minority interests're not charged with any intercompany profit.
5. Intercompany debts at 31 March 2010 were as follows: Pagg owed Ragg $£ 200,000$ and Ragg owed Tagg $£ 35,000$.

Required:

## Question Three

## Parent Balance Sheet as at 31 March 2016

|  | $£$ | $£$ |
| :--- | ---: | ---: |
| Investment in subsidiary:50,000 shares bought 31.3 .2015 |  | 105,000 |
| Fixed assets |  | $\underline{140,000}$ |
| Stock | 26,000 |  |
| Debtors | 30,000 | 40,000 |
| Bank | 60,000 |  |
|  | $(3,000)$ | $\underline{57.000}$ |
| Less: Creditors |  | $\underline{202000}$ |
|  |  |  |
| Share capital | 45,000 |  |
| Profit and loss: | 50,000 |  |

General reserve
95,000
7000
$\underline{\underline{302,000}}$

## Subsidiary Balance Sheet as at 31 March 2016

|  | $£$ | $£$ |
| :--- | ---: | ---: |
| Fixed assets | 104,000 |  |
| Stock | 19,000 |  |
| Debtors | 14,000 |  |
| Bank | 104,000 |  |
|  |  | $\underline{6,000}$ |
| Less: Creditors |  | $\underline{43,000}$ |
| Share capital | $\underline{\underline{13,000}}$ |  |
| Profit and loss: | 35,000 | 50,000 |
| As at 31.3.2015 | $\underline{51000}$ |  |
| Profit for 2016 |  | $\underline{\underline{136,000}}$ |
|  |  |  |

$\underline{136,000}$
a) During the year, Parent sold goods which had cost $£ 1,100$ to Subsidiary for $£ 1,800$. None of these goods had been sold by the balance sheet date.
b) At the balance sheet date Parent owes Subsidiary $£ 2,000$.

Required: Prepare a consolidated balance sheet as at 31 March 2016.

## Question Four

The trial balance extracted from the books of Kisauni Ltd at 31 December 2003 was as follows:

|  | $£$ | $£$ |
| :--- | ---: | ---: |
| Share capital |  | 200,000 |
| Retained profits 31 December 2002 <br> Freehold premises at cost | 271,000 | 27,500 |
| Provision for depreciation on free-hold premises |  |  |
| at 31 December 2002 | 84,000 | 54,000 |
| Machinery at cost |  |  |
| Provision for depreciation on machinery account as <br> at 31 December 2002 | 563,700 | 21,000 |
| Purchases | 14,600 | 925,300 |
| Sales | 179,400 |  |
| General expenses | 6,100 |  |
| Wages and salaries | 4,800 |  |
| Business rates | 1,400 |  |
| Electricity | 74,200 | 1,200 |
| Bad debts |  |  |
| Allowance for doubtful debts at 31 December 2002 | 81,900 | 68,300 |
| Accounts receivable | 16,200 |  |
| Accounts payable | $\underline{\underline{1,297,300}}$ | $\underline{\underline{1,297,300}}$ |
| inventory at 31 December 2002 |  |  |

You are given the following additional information:
i. The authorized and issued share capital is divided into 400,000 ordinary shares of 50 p each.
ii. Inventory at 31 December 2303, $£ 94,300$.
iii. Wages and salaries due at 31 December 2003 amounted to $£ 1,800$.
iv. Business rates paid in advance at 31 December 2003 amounted to $£ 700$.
v. A dividend of $£ 20,000$ is proposed for 2003.
vi. The allowance for doubtful debts is to be increased to $£ 1,500$.
vii. A depreciation charge is to be made on freehold premises of $£ 25,000$ and machinery at the rate of 25 per cent per annum on cost.

## Question Five

Explain the following terms in relation to deferred taxation
i) Deferred tax asset (3 mks)
ii) Deferred tax liability (3 mks)
iii) Temporary difference (3 mks)
iv) Timing difference (3 mks)
v) Tax losses
(3 mks)
vi) Tax base
(3 mks)
vii) Current tax

