

TECHNICAL UNIVERSITY OF MOMBASA
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	<u>(920)</u>	<u>(75)</u>
Gross profit	780	375
Administration expenses	(300)	(175)
Income from shares in group company	<u>120</u>	<u>-</u>
Profit on ordinary activities before taxation	600	200
Tax on profit on ordinary activities	<u>(30)</u>	<u>(20)</u>
Profit on ordinary activities after taxation	570	180
Dividends: paid	(90)	(50)
Proposed	<u>(270)</u>	<u>(100)</u>
Retained profit for the year	210	30
Retained profit brought forward	<u>220</u>	<u>70</u>
Retained profit carried forward	<u><u>430</u></u>	<u><u>100</u></u>

Balance Sheets at 30 September 2007

	NORBRECK PLC	BIPHAM LTD
	£000	£000
Fixed tangible assets	<u>1,280</u>	<u>440</u>
Investment Shares in group company	<u>400</u>	<u>-</u>
Current assets		
Stocks	300	250
Debtors (including, for Norbreck plc, the dividend proposed by the subsidiary)	280	150
Cash at bank and in hand	<u>40</u>	<u>10</u>
	<u>620</u>	<u>410</u>
Creditors (amounts falling due within one year)		
Trade creditors	(80)	(160)
Other creditors, taxation and social security	(160)	(70)

Proposed dividend	<u>(270)</u>	<u>(100)</u>
	<u>(510)</u>	<u>(330)</u>
Net current assets	<u>110</u>	<u>80</u>
Total assets less current liabilities	<u>1,790</u>	<u>520</u>
Provisions for liabilities and charges		
Taxation, including deferred taxation	<u>(460)</u>	<u>(20)</u>
	<u>1,330</u>	<u>500</u>
Capital and reserves		
Called-up share capital (ordinary shares of £1 each)	900	400
Profit and loss account	<u>430</u>	<u>100</u>
	<u>1,330</u>	<u>500</u>

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 Bispham.

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 (15 mks)

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 £000	Rag Ltd £000	Tagg Ltd £000
Tangible fixed assets at net book value	<u>2,000</u>	<u>900</u>	<u>600</u>
Investments			
800,000 ordinary shares in Ragg Ltd	3,000	-	-
300,000 ordinary shares in Tagg Ltd	<u>1,000</u>	<u>-</u>	<u>-</u>

	<u>4,000</u>	<u>-</u>	<u>-</u>
Current assets	1,300	350	100
Stocks	3,000	200	300
Debtors	<u>200</u>	20	50
Cash	4,500	570	450
Current liabilities	<u>(4,000)</u>	<u>(270)</u>	<u>(400)</u>
Creditors	<u>6,500</u>	<u>1,200</u>	<u>650</u>
Capital and reserves			
Called—up share capital (all ordinary shares of £1 each)	5,500	1,000	500
Profit and loss	<u>1,000</u>	<u>200</u>	<u>150</u>
	<u>6,500</u>	<u>1,200</u>	<u>650</u>

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:

Consolidated balancesheet as at 31 March 2010

(20 mks)

Question Three

Parent Balance Sheet as at 31 March 2016

	£	£
Investment in subsidiary:50,000 shares bought 31.3.2015		105,000
Fixed assets		<u>140,000</u>
		245,000
Stock	26,000	
Debtors	30,000	
Bank	4 000	
	<u>60,000</u>	
Less: Creditors	<u>(3,000)</u>	
		<u>57,000</u>
		<u>302,000</u>
Share capital		200,000
Profit and loss:		
A's at 31.3.2015	45,000	
Profit for 2016	<u>50,000</u>	
General reserve		95,000
		<u>7 000</u>
		<u>302,000</u>

Subsidiary Balance Sheet as at 31 March 2016

	£	£
Fixed assets		104,000
Stock		19,000
Debtors		14,000
Bank		104,000
		<u>6,000</u>
Less: Creditors		143,000
		<u>(7,000)</u>
Share capital		<u>136,000</u>
Profit and loss:		50,000
As at 31.3.2015	35,000	
Profit for 2016	<u>51 000</u>	
		<u>86,000</u>
		<u>136,000</u>

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.

(20 mks)

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		27,500
Freehold premises at cost	271,000	
Provision for depreciation on free-hold premises at 31 December 2002		54,000
Machinery at cost	84,000	
Provision for depreciation on machinery account as at 31 December 2002		21,000
Purchases	563,700	
Sales		925,300
General expenses	14,600	
Wages and salaries	179,400	
Business rates	6,100	
Electricity	4,800	
Bad debts	1,400	
Allowance for doubtful debts at 31 December 2002		1,200
Accounts receivable	74,200	
Accounts payable		68,300
inventory at 31 December 2002	81,900	
Bank balance	16,200	
	<u>1,297,300</u>	<u>1,297,300</u>

You are given the following additional information:

- i. The authorized and issued share capital is divided into 400,000 ordinary shares of 50p 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 (2 mks)