



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE
BACHELOR OF BUSINESS ADMINISTRATION

BAC 4401: ADVANCED ACCOUNTING II

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2 HOURS

DATE: 2016

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE questions. Question One is Compulsory. Answer any other two questions.

Do not write on the question paper.

Question ONE (Compulsory)

You are the accountant for the Rag group consolidation. The income statement of Rag, Tag and Bobtail for the year ended 31 March 20X9 are given below:

	Rag	Tag	Bobtail
	Sh.000	Sh.000	Sh.000
Revenue (note 1)	65,000	50,000	100,000
Cost of sales	<u>(35,000)</u>	<u>(28,000)</u>	<u>(82,000)</u>
Gross profit	30,000	22,000	18,000
Other operating expenses	<u>(15,000)</u>	<u>(11,000)</u>	<u>(9,000)</u>
Operating profit	15,000	11,000	9,000
Investment income	3,000	1,200	-
Interest payable	<u>(3,200)</u>	<u>(1,800)</u>	<u>(1,200)</u>
Profit before taxation	14,800	10,400	7,900
Taxation	<u>(3,600)</u>	<u>(2,800)</u>	<u>(2,400)</u>
Profit for the period	<u>11,200</u>	<u>7,600</u>	<u>5,400</u>

Notes:

1. Rag supplies a component which is used by both Tag and Bobtail. Because of the close relationship between the three entities, the component is supplied at a mark-up of only 10% on cost. Details of inter-entity sales of the product for the year to 31 March 20X9 were as follows:

- Rag to Tag Sh.8 million
- Rag to Bobtail Sh.4 million

Details of the inventory of the component supplied by Rag which were included in the books of Tag and Bobtail at the beginning and end of the year were:

	20X9	20X8
	Sh.000	Sh.000
Tag	2,200	1,980
Bobtail	1,100	990

2. Rag holds 75% of the issued share capital of Tag. Tag holds 40% of the issued share capital of Bobtail. Your assistant is responsible for preparing the draft consolidated financial statements for your review. She is aware that Tag will be dealt with as a 75% subsidiary but is unsure of the way of dealing with Bobtail.

Required:

- (a) Write a memorandum to your assistant which explains how Bobtail will be incorporated into the consolidated financial statements of Rag.
Your memorandum should refer to relevant accounting standards to support your explanations. (6 marks)
- (b) Prepare a working schedule for the consolidated income statement of Rag group for the year ended 31 March 20X9. You should start with the revenue and end with profit for the period. Do not prepare notes to the consolidated income statement. (24 marks)

(Total = 30 marks)

Question TWO

The income statement and statement of financial position for the year 20X0 for Andele Ltd and Bukungu Ltd are given below:

Income Statements for the year ended 31 December 20X0.

	Andele Ltd	Bukungu Ltd
	Sh.000	Sh.000
Revenue	10,000	7,000
Cost of sales	<u>(6,000)</u>	<u>(2,000)</u>
Gross profit	4,000	5,000
Expenses & tax	<u>(3,000)</u>	<u>(2,000)</u>
Profit	<u>1,000</u>	<u>3,000</u>

Statements of financial position as at 31 December 20X0.

	Andele Ltd	Bukungu Ltd
	Sh.000	Sh.000
ASSETS		
<u>Non-current assets</u>		
Property, plant and equipment	25,300	9,000
Investments (3.2 million shares in Bukungu Ltd at cost	<u>3,200</u>	<u>-</u>
	28,500	9,000
Current assets	<u>22,500</u>	<u>7,000</u>
Total assets	<u>51,000</u>	<u>16,000</u>
EQUITY AND LIABILITIES		
<u>Equity</u>		
Ordinary Share Capital	10,000	4,000
Share premium account	4,000	-
Retained earnings	<u>2,000</u>	<u>7,000</u>
Total equity	16,000	11,000
Non-current liabilities	10,000	2,000
Current liabilities	<u>25,000</u>	<u>3,000</u>
Total equity and liabilities	<u>51,000</u>	<u>16,000</u>

Andele Ltd has owned 80% of Bukungu Ltd since incorporation.

Required:

Prepare for Andele Group.

- (a) The consolidated income statement for the year ended 31 December 20X0 and; (10 marks)
- (b) The consolidated statement of financial position at that date. (10 marks)
- (Total = 20 marks)**

Question THREE

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

Required:

Discuss why the development of international accounting standards is considered to be important.

(20 marks)

Question FOUR

With reference to the information below, answer parts (a) to (e) with respect to the consolidated financial statements of Vitendo Company Ltd.

Summarized Statement of financial position as at 30 September 20X7:

	Vitendo Ltd	Polo Ltd	Gold Ltd
ASSETS	Sh.million	Sh.million	Sh.million
Property, plant and equipment	200	40	30
Investments:			
100,000,000 shares in Polo Ltd	150	-	-
40,000,000 shares in Gold Ltd	70	-	-
<u>Current assets:</u>			
Inventories	150	90	80
Trade receivables	250	40	20
Cash	<u>50</u>	<u>20</u>	<u>10</u>
	<u>870</u>	<u>190</u>	<u>140</u>
EQUITY AND LIABILITIES			
<u>Equity</u>			
Ordinary Share of Sh.1.00 each	500	100	50
Retained earnings	<u>90</u>	<u>40</u>	<u>70</u>
Total equity	590	140	120
Current liabilities	<u>280</u>	<u>50</u>	<u>20</u>
	<u>870</u>	<u>190</u>	<u>140</u>

Additional information:

- (1) Vitendo Ltd acquired its share in Polo Ltd on 1 October 20X5 when Polo Ltd's retained earnings were sh.30 million.
- (2) Vitendo Ltd acquired its share in Gold Ltd on September 20X6. Gold Ltd's net profit for the year ended 30 September 20X7 was sh.30 million.
- (3) Included in Polo Ltd's inventory at 30 September 20X7 was sh.15 million of goods purchased from Vitendo Ltd during the year. Vitendo Ltd invoiced Polo Ltd at cost plus 50%.
- (4) During the year ended 30 September 20X7 Polo Ltd sold goods costing sh.50 million to Gold Ltd for sh.70 million. Gold Ltd still had half of these goods in inventory at 30 September 20X7.

(5) The following intra-group balances are reflected in the above statement of financial position of Vitendo Ltd at 30 September 20X7:

- Sh.20 million receivable from Polo Ltd
- Sh.10 million payable to Gold Ltd

Required:

Determine the amounts that will be shown in the consolidated balance sheet for:

- (a) Minority interest (i.e non-controlling interest). (4 marks)
- (b) Inventories. (4 marks)
- (c) Trade receivables (4 marks)
- (d) Goodwill (4 marks)
- (e) Consolidated retained earnings. (4 marks)

(Total = 20 marks)

Question FIVE

The financial position of Likoni Ltd at 30 September 20X5 was as follows

Balance Sheet at 30 September 20X5

	Cost	Depreciation	Net
<u>Non-current Assets:</u>	Sh.000	Sh.000	Sh.000
Freehold premises	100,000	20,000	80,000
Plant and equipment	250,000	60,000	190,000
Vehicles	<u>45,000</u>	<u>15,000</u>	<u>30,000</u>
	<u>395,000</u>	<u>95,000</u>	300,000
 <u>Current Assets:</u>			
Inventories		40,000	
Accounts receivable		30,000	
Bank		<u>10,000</u>	
		80,000	
 <u>Less Current liabilities:</u>			
Account payable		<u>(140,000)</u>	<u>(60,000)</u>
			<u>240,000</u>

Financed by

Share capital

— Authorized

(150 million 7% Preference shares of
sh.1.00 each.

150,000

400 million Ordinary shares of sh.1.00 each.	<u>400,000</u>	
	<u>550,000</u>	
— Issued and fully paid (100 million 7% Preference shares of sh.1.00 each.	100,000	
400 million Ordinary shares of sh.0.75 each.	<u>300,000</u>	400,000
<u>Reserves</u>		
Retained earnings account (debit balance)		<u>(160,000)</u>
		<u>240,000</u>

The 7% Preference dividends are two years in arrears. The company had formulated an approved scheme of reorganization, to take effect on 1st October 20X5 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..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 waiving 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 retained earnings account is to be written off.
6. The undernoted revaluations are to be incorporated into the accounts:

	Sh.000
Freehold premises	100,000
Plant and equipment	105,000
Vehicles	25,000
Inventory	36,000

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

Required:

- (a) Post the appropriate accounts to effect the reorganization, and (14 marks)
- (b) Prepare the balance sheet of Likoni Ltd immediately after all the reorganization entries have been posted. (6 marks)

(Total = 20 marks)

