



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
DIPLOMA IN ACCOUNTANCY
BAC 2215: ADVANCE ACCOUNTING 2
END OF SEMESTER EXAMINATION
SERIES:AUGUST2019
TIME:2HOURS
DATE:Pick DateAug2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

Kuguru limited acquired 80% of the ordinary shareholders equity of Ndege on 1/1/2011. On the same day, the revenue reserves of Ndege stood at Sh. 1,000,000. Kuguru also bought 20% of Ndege preference shares and 30% of its debentures. The price paid for the entire investments in Ndege was Kshs 6,000,000.

**The balance sheet of Kuguru & Ndege
As at 31/12/2012**

	Kuguru Kshs	Ndege Kshs
Fixed assets	10,000,000	8,000,000
<u>Investment In Ndege</u>	<u>6,000,000</u>	
	<u>16,000,000</u>	<u>8,000,000</u>
Stock	3,000,000	2,000,000
Debtors	3,000,000	2,000,000
Cash & Bank	1,000,000	1,000,000
	<u>7,000,000</u>	<u>5,000,000</u>
Creditors	2,000,000	2,000,000
Tax	1,000,000	500,000
Dividend	1,500,000	1,000,000
	<u>(4,500,000)</u>	<u>(3,500,000)</u>
Net assets	<u>18,500,000</u>	<u>9,500,000</u>

Financed by:

Ordinary Shares	5,000,000	3,000,000
Preference shares	2,000,000	1,000,000
Debentures	1,000,000	1,000,000
Share premium	1,500,00	500,000
Retained profits	<u>9,000,000</u>	<u>4,000,000</u>
	<u>18,500,000</u>	<u>9,500,000</u>

Additional information:

1. Since its acquisition, Company Ndege has not issued any shares.
2. Kuguru does not accrue any dividend receivable from Ndege.
3. Dividend to preference shares had been paid during the year.
4. Goodwill was tested for impairment and found to be worth as follows:

31st December 2011	1,520,000
31st December 2012	1,140,000
5. Included in the debtors of Kuguru is an amount of Sh. 500,000 receivable from Ndege. The same has been accounted for in Ndege as creditors.
6. Included in the stock of Ndege are sh. 1,000,000 worth of goods acquired from Kuguru. Kuguru sells all stock and any other commodities to Ndege at cost plus 25% mark up.
7. Included in the fixed assets of Ndege is an item of fixed asset acquired from Kuguru at a cost of Sh. 2,000,000. Ndege depreciates fixed assets at 20% on straight line with a full charge in the year of acquisition.

Required

Prepare the Kuguru consolidated Balance sheet as at 31st December 2012 and show all the workings.

(30 marks)

Question TWO

The summarized balance sheet of Tata Ltd and Ajab Ltd at 31 December 2018 are as follows:

	Tata Ltd	Ajab Ltd
	Kshs	Kshs
Fixed Assets at book value	600,000	460,000
Investment in B ltd	750,000	
Current assets		
Stock	320,000	130,000
Debtors	270,000	170,000
Bank	<u>10,000</u>	<u>20,000</u>
	1,950,000	780,000
Financed by:		
Share capital	1,000,000	500,000
Retained profits	700,000	120,000
	1,700,000	620,000
Liabilities	250,000	160,000
	1,950,000	780,000

Tata Ltd purchased the entire share capital of Ajab Ltd on 31 December 2018. The fixed assets of Ajab Ltd are considered to possess a fair value of sh, 540,000 but no material difference between the book values and fair values of the remaining assets.

Required

Calculate the goodwill arising on consolidation using;

- i. The net assets approach and
- ii. The shareholders equity approach.

(20Marks)

Question THREE

Mombasa cement ltd won the contract for the construction of a multistory building at a cost os shs.200 million. the data relating to the contract for the year ended 31st December 2018 were as follows:

	Shs'000'
Materials issued to the site	80,000
Materials purchased locally	15,700
Direct wages :	
paid	5,800
accrued	350
Plant purchased and installed	48,800
Direct expenditure	
Paid	1,780
Accrued	70
Establishment charges	180
Materials returned to store	850
Work certified	150,000
Cost of work not certified	3,800
Materials on site on 31 December	5,330
Value of plant on 31 December	41,500

The company had received from the client, payment amounting to shs 126 million.

Required

- a) Contract account
- b) Contractee account

(20 marks)

Question FOUR

It has been suggested that published accounting statements should attempt to be:

- (i) Relevant
- (ii) Understandable
- (iii) Reliable
- (iv) Compute
- (v) Objective
- (vi) Timely
- (vii) Comparable

- (a) Explain briefly the meaning of these terms as applied to accounting.
- (b) Are there any difficulties in applying all of them at the same time.

(20 Marks)

Question FIVE

It is said that the objective of financial statements is to provide information about the financial performance and financial adoptability of an enterprise that is useful to a wide range of users.

Required:

List **five** potential users of company financial statements, and briefly explain for each why they need information about the company.

(20 Marks)