TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DEGREE

BAC4304: 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. Attemptquestion ONE (Compulsory) and any other TWO questions.
Do not write on the question paper.

Question ONE

The statements of financial position of SUN ltd and MOON ltd at 31 December 2018 are set below. On 31 March 2018 SUN Ltd acquired for cash 75% of the sh.1 ordinary shares in MOON Ltd. the retained earnings of the two companies at 1 January 2018 were sh 2.8 million and sh. 1.5 million respectively.

	SUN LTD		**MOON LTD**	
	Sh.000	Sh.000	Sh.000	Sh.000
Fixed Assets				
Property , plant and equipment		3,560		2800
Investment in MOON		2940		
		6500		**2800**
Current Assets				
Stock	1,150		550	
Debtors - group	400		-	
Debtors –others	1500		800	
Bank	100		50	
		3150		1400

Total Assets		**9650**		**4200**
Financed by:				
Ordinary share Capital		3500		900
Share Premium		700		170
Retained earnings		3500		2300
		7,700		3370
Loan		1100		110
Current liabilities				
Creditors -group	-		400	
Creditors –others	850		320	
		850		720
		9650		**4200**

Additional information:

1. The fair value of MOON Ltd property on 31 march 2018 was sh 200,000 above its carrying amount. All of this relates to the buildings element of the property, which is being depreciated at 4 % per annum
2. At the date of acquisition the replacement cost of raw material stock was sh.400,000. The carrying amount was sh. 300,000. At 31December 2018 30% of these raw materials remained in stock. the rest had been covered to finished goods and sold to third parties
3. Since the date of acquisition SUN Ltd has sold to MOON Ltd stock valued at sh.800,000; half of these goods remained in the inventories of MOON Ltd at 31 December 2018. SUN Ltd calculated the transfer price of the goods at cost plus a mark-up of 25%.
4. It is the accounting policy of SUN Ltd to undertake annual reviews for goodwill impairment. At 31 December 2018 an impairment of sh 20,000 was identified in respect of MOON Ltd.

Required:

a) Prepare the consolidated Balance Sheet of SUN Ltd as at 31 December 2018.
b) Explain the purpose of preparing the consolidated financial statements.

(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	10,000	20,000
	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

a) Calculate the goodwill arising on consolidation using;
   i. The net assets approach and
   ii. The shareholders equity approach.

b) Prepare the consolidated balance sheet of Tata Ltd and its subsidiary as at 31 December 2018.

Question THREE

Walimu Ltd acquired 80% at the shareholding of Coast Ltd on 1st January,2011. On that date the share capital of Coast Ltd stood at Ksh 2,000,000 while the retained earnings stood at Ksh.1,000,000. The cost of investment was Ksh.3, 000,000. The profit and loss account for the year ended 31st December,2013 were as follows.

	Walimu Ltd	**Coast Ltd**
Sales	8,000,000	5,000,000
Cost of sales	(3,500,000)	(2,000,000)
Gross profit	**4,500,000**	**3,000,000**
Expenses	(2,000,000)	(1,000,000)
Profit before tax	**2,500,000**	**2,000,000**
Tax	(1,000,000)	(800,000)
Profit after tax	**1,500,000**	**1,200,000**
Dividends	(700,000)	(600,000)
Retained profits	**800,000**	**600,000**
Retained b / f	3,200,000	2,000,000
Retained c/ f	**4,000,000**	**2,600,000**

Additional Information

a) Walimu Ltd sold goods to Coast Ltd worth Ksh.500, 000 at a mark-up of 25%. Out of these, goods worth Ksh. l00,000 remained in the stock of Coast Ltd. It is the group policy to write off any unrealised profit against the group and minority in the proportion of their respective ownership.

b) Walimu Ltd does not accrue any dividends receivable from Coast Ltd.

c) During the year 2002, Walimu Ltd sold fixed assets to Coast Ltd at a price of Ksh.l, 000,000. Walimu Ltd made a profit of 20% on the sale. Coast Ltd depreciates fixed assets at 10% on cost.

d) Goodwill was tested for impairment and found to have lost Ksh 120,000 for each of the two years to 31st December 2013.

REQUIRED

Prepare the consolidated profit and loss account (all workings to be shown).

(20marks)

Question FOUR

Mombasa Ltd acquired 70% of ordinary shares of BUS Ltd and 30% of CAR Ltd on 1st January 2015. The respective reserves of Bus and Car on that day were Ksh 2,000,000 and Ksh l,000,000 respectively. Bus had 200,000 ordinary shares of at Sh. 20 each while Car had Ksh 300,000 at Sh. 10. The price paid for acquisition was Ksh. 5,000,000 and Ksh. 1,500,000 for Bus and Car respectively.

The respective profit and loss accounts for the year ended 31st December 2017 were as follows:

	MOMBASA.'OOO	**BUS. '000'**	**CAR. '000'**
	Kshs	Kshs	Kshs
Turnover	5,000	4,000	3,000
Cost of sales	(3,000)	(2500)	(2,000)
	2,000	1,500	1,000
Expenses	(1,000)	(800)	(500)
	1,000	700	500
Tax	(300)	(250)	(100)
	700	450	400
Dividend	300	200	100
	400	250	300
Retained Profits b/f	3000	2,500	2,500
Retained Profits c/ f	3,400	2,750	2,800

Additional Information:

1. Goodwill on acquisition is tested for impairment and found to have lost a 1/5 of its original cost. Investment in associates is also tested for impairment and found to have lost 1/5 of the cost of the premium on acquisition.
2. Included in turnover of Mombasa is a sale to Bus amounting Sh. 1,000,000.
3. Mombasa sells goods to Bus at a mark -up of 25%.
4. Out of the stock of Bus Ltd is goods worth Sh. 200,000 acquired from Mombasa Ltd.
5. In the year 2016 Bus Ltd bought fixed assets from Mombasa amounting Sh. 2,000,000. The mark up to Mombasa was 25%. Bus depreciates fixed assets at 10% on straight line. Mombasa does not accrue for dividend receivable from its subsidiaries or associates.

REQUIRED

Draw Mombasa Ltd consolidated profit and loss account and showing clearly all the workings.

(20MARKS)

Question FIVE

a) What are accounting standards?
b) Briefly explain possible benefits that could accrue from the development of a single set of accounting standard that could be applied in all countries.

(20MARKS)