



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:
DEGREE

BAC 4304: 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

Kenya Sugar Limited (KSL) wanted to expand its operations in the Africa region. On 1 April 2016 it purchased 60 % of the ordinary share capital of Lugari Limited (UL - incorporated in Uganda) for Kenya Shillings 26.4 million, when the rate of exchange was Ush.12 = Ksh. 1 and the reserves of Lugari Limited were Ush.368 million. The functional currency of UL is different from that of KSL.

The trial balances as at 31 March 2018 were as follows:

	KSL	UL
	Ksh.'000	Ush.'000'
Fixed Assets: Cost	30,000	360,000
Investment in THL	26,400	-
Stock at 31 March 2017	20,000	280,000
Debtors	10,600	48,800
Cash	1,100	12,400
Expenses (including depreciation)	30,000	225,000
Taxation paid	3,500	22,600
Dividend paid	<u>4,000</u>	<u>26,500</u>
	<u>125,600</u>	<u>975,300</u>
Share capital	12,000	100,000
Profit and loss accounts as at 1 April 2015	55,410	406,500
Trading income	40,000	300,000
Accumulated depreciation	12,000	144,000
Creditors	4,600	24,800
Dividend received	<u>1,590</u>	<u>-</u>
	<u>125,600</u>	<u>975,300</u>

Additional Information:

- The rates of exchange between the Kenya Shilling and the Uganda Shilling were as follows:
1 April 2017 Ush.9 = Ksh. 1

Average for the year 1 April 2015 –

31 March 2018 Ush.10 = Ksh. 1

31 March 2018 Ush. 8 = Ksh. 1

- Group policy is to translate profit and loss account items at the average rate of exchange for the year. Goodwill on consolidation is tested for impairment and found to have lost 1/5 of its original cost for each of the years.
- The retained profit in UL for the year ended 31 March 2017 had been translated at the average rate for that year to Ksh.3,500,000.

REQUIRED

- The consolidated profit and loss account for the year ended 31 March 2018.
- The consolidated balance sheet as at 31 March 2018.

(30 MARKS)

Question TWO

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

The balance sheet of Lamina Sierra & As at 31/12/2012

	Lamina Sierra Kshs	Agodzo Kshs
Fixed assets	10,000,000	8,000,000
Investment In Agodzo	6,000,000	
	<u>16,000,000</u>	8,000,000
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>	5,000,000
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>	3,500,000
Net assets	<u>18,500,000</u>	9,500,000
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	1,500,000	500,000
Retained profits	9,000,000	4,000,000
	<u>18,500,000</u>	9,500,000

Additional information:

- Since its acquisition, Company Agodzo Ghan has not issued any shares.
- Lamina Sierra does not accrue any dividend receivable from Agodzo Ghan.
- Dividend to preference shares had been paid during the year.
- 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 Lamina Sierra is an amount of Sh. 500,000 receivable from Agodzo Ghan. The same has been accounted for in Agodzo Ghan as creditors.
6. Included in the stock of Agodzo Ghan are sh. 1,000,000 worth of goods acquired from Lamina Sierra. Lamina Sierra sells all stock and any other commodities to Agodzo Ghan at cost plus 25% mark up.
7. Included in the fixed assets of Agodzo Ghan is an item of fixed asset acquired from Lamina Sierra at a cost of Sh. 2,000,000. Agodzo Ghan depreciates fixed assets at 20% on straight line with a full charge in the year of acquisition.

REQUIRED

Prepare the Lamina Sierra consolidated Balance sheet as at 31st December 2012

(20 MARKS)

Question THREE

JOGOO acquired 80% at the shareholding of KCC Ltd on 1/1/2011. On that date the share capital of KCC 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 31/12/2013 were as follows.

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

Additional Information

- a) JOGOO sold goods to KCC worth Ksh.500, 000 at a mark-up of 25%. Out of these, goods worth Ksh. 100,000 remained in the stock of KCC. It is the group policy to write off any unrealised profit against the group and minority in the proportion of their respective ownership.
- b) JOGOO does not accrue any dividends receivable from KCC.
- c) During the year 2002, JOGOO sold fixed assets to KCC at a price of Ksh.1, 000,000. JOGOO made a profit of 20% on the sale. KCC 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

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

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

	MASH.'000	TAHMID. '000'	CROWN.
	Kshs	Kshs	Kshs
Turnover	5,000	4,000	3,000
Cost of sales	<u>(3,000)</u>	<u>(2500)</u>	<u>(2,000)</u>
	2,000	1,500	1,000
Expenses	<u>(1,000)</u>	<u>(800)</u>	<u>(500)</u>
	1,000	700	500
Tax	<u>(300)</u>	<u>(250)</u>	<u>(100)</u>
	700	450	400
Dividend	<u>300</u>	<u>200</u>	<u>100</u>
	400	250	300
Retained Profits b/f	3000	<u>2,500</u>	<u>2,500</u>
Retained Profits c/ f	<u>3,400</u>	<u>2,750</u>	<u>2,800</u>

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 MASH is a sale to TAHMID amounting Sh. 1,000,000.
3. MASH sells goods to TAHMID at a mark -up of 25%.
4. Out of the stock of TAHMID Ltd is goods worth Sh. 200,000 acquired from MASH Ltd.
5. In the year 2016 TAHMID Ltd bought fixed assets from MASH amounting Sh. 2,000,000. The mark up to MASH was 25%. TAHMID depreciates fixed assets at 10% on straight line. MASH does not accrue for dividend receivable from its subsidiaries or associates.

REQUIRED

Draw MASH 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)