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# TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

**UNIVERSITY EXAMINATION FOR DEGREE IN**

**BACHELOR OF COMMERCE, BACHELOR OF BUSINESS**

**ADMINISTRATION**

**BAC 4307 : ADVANCED ACCOUNTING II**

**END OF SEMESTER EXAMINATION**

**SERIES: APRIL 2022**

**TIME: 2 HOURS**

**DATE:** Pick Date Apr 2022

**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.**

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**QUESTION ONE (COMPULSORY)**

- a) As per the conceptual framework of accounting, explain five users of accounting information and their information needs. (10 marks)
- b) The following information relates to the Bombolulu group of companies for the year to 30 April 2017:

	<i>Bombolulu</i> <i>shs000</i>	<i>Likoni</i> <i>shs000</i>	<i>Chaani</i> <i>shs000</i>
<i>Turnover</i>	1,100	500	130
<i>Cost of sales</i>	<u>( 630)</u>	<u>(300)</u>	<u>( 70)</u>
<i>Gross profit</i>	470	200	60
<i>Administrative expenses</i>	(105)	(150)	( 20)
<i>Dividend from Likoni</i>	24	-	-
<i>Dividend from Chaani</i>	<u>6</u>	<u>-</u>	<u>-</u>
<i>Profit before tax</i>	395	50	40
<i>Taxation</i>	<u>( 65)</u>	<u>( 10)</u>	<u>( 20)</u>
<i>Profit after tax</i>	330	40	20
<i>Interim dividend</i>	( 50)	( 10)	-
<i>Proposed dividend</i>	<u>(150)</u>	<u>( 20)</u>	<u>( 10)</u>
<i>Retained profit for the year</i>	130	10	10
<i>Retained profits brought forward</i>	<u>460</u>	<u>106</u>	<u>30</u>
<i>Retained profits carried forward</i>	<u>590</u>	<u>116</u>	<u>40</u>

*Additional information:*

(a) The issued share capital of the group was as follows:

Bombolulu: 5,000,000 ordinary shares of shs1 each;

Likoni: 1,000,000 ordinary shares of shs1 each; and

Chaani: 400,000 ordinary shares of shs1 each.

(b) Bombolulu purchased 80 per cent of the issued share capital of Likoni in 2010. At that time, the retained profits of Likoni amounted to shs56,000.

(c) Bombolulu purchased 60 per cent of the issued share capital of Chaani in 2014. At that time, the retained profits of Chaani amounted to shs20,000.

(d) Bombolulu recognises dividends proposed by other group companies in its profit and loss account.

**Required:**

In so far as the information permits, prepare the Bombolulu group of companies' consolidated profit and loss account for the year to 30 April 2017 in accordance with the Companies Acts and related accounting statements. (20 marks)

**QUESTION TWO**

a) Briefly distinguish between internal and external reconstruction of companies. (10 marks)

b) Discuss various sources of accounting standards in Kenya. (10 marks)

### QUESTION THREE

From the following balance sheets, you are to draft a consolidated balance sheet for the group of Parent Ltd and its two subsidiaries, Sub 1 and Sub 2.

#### Parent Ltd Balance Sheet as at 31 December 2014

	shs	shs
Investment in Sub 1: 45,000 shares bought 31.12.2013		115,000
Fixed assets		495,000
Current assets		<u>125,000</u>
		<u>735,000</u>
Share capital		500,000
Profit and loss:		
As at 31.12.2013	75,000	
Add Profit for 2014	<u>110,000</u>	
		185,000
General reserve		<u>50,000</u>
		<u>735,000</u>

#### Sub 1 Ltd Balance Sheet as at 31 December 2014

	shs	shs
Investment in Sub 2: 7,000 shares bought 31.12.2013		30,000
Fixed assets		110,000
Current assets		<u>25,000</u>
		<u>165,000</u>
Share capital		50,000
Profit and loss:		
As at 31.12.2013	35,000	
Add Profit for 2014	80,000	
		<u>115,000</u>
		<u>165,000</u>

#### Sub 2 Ltd Balance Sheet as at 31 December 2014

	shs	shs
Fixed assets		12,000
Current assets		<u>6,000</u>
		<u>18,000</u>
Share capital		10,000
Profit and loss:		
As at 31.12.2013	2,000	
Add Profit for 2014	<u>6,000</u>	
		8,000
		<u>18,000</u>

## QUESTION FOUR

- a) What do you mean by Internal Reconstruction?
- b) What is the need for Capital Reduction?
- c) What is the meaning of Reduction of Share Capital of a Company?
- d) Distinguish between Internal Reconstruction and External Reconstruction.
- e) Write short notes on:
  - (i) Dissenting Shareholders.
  - (ii) Inter-company holdings
  - (iii) Realisation Account.
  - (iv) Amalgamation Adjustment Reserve.
  - (v) Treatment of realisation expenses.

(2 marks each)

## QUESTION FIVE

### Parent Undertakings Ltd Balance Sheet as at 31 December 2018

Investment in subsidiary: 40,000 shares bought 31.12.2017	68,000
Fixed assets	80,000
Less Depreciation for year	<u>(8,000)</u>
	72,000
Current assets	<u>12,600</u>
	<u>152,000</u>
Share capital	110,000
Profit and loss:	
As at 31.12.2017	32,000
Add Profit for 2018	<u>10,000</u>
	<u>42,000</u>
	<u>152,000</u>

### Sons and Co Ltd Balance Sheet as at 31 December 2018

Fixed assets	60,000
Less Depreciation for year	<u>(6,000)</u>
	54,000
Current assets	<u>8,000</u>
	<u>62,000</u>
Share capital	40,000
Profit and loss:	
As at 31.12.2017	10,000
Add Profit for 2018	<u>12,000</u>
	<u>22,000</u>
	<u>62,000</u>

Required: draft Parent Undertaking's balance sheet as at 31 December 2018

(20 marks)