



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS  
DEPARTMENT OF ACCOUNTING & FINANCE  
**UNIVERSITY EXAMINATION FOR:**  
DIPLOMA IN ACCOUNTANCY  
BAC2215: ADVANCE ACCOUNTING 2  
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.**

**Question ONE**

Khaki limited acquired 80% of the ordinary shareholders equity of Nguo on 1 January, 2018. On the same day, the revenue reserves of Nguo stood at Sh. 1,000,000. Khaki also bought 20% of Nguo preference shares and 30% of its debentures. The price paid for the entire investments in Nguo was Kshs 6,000,000.

**The balance sheet of Khaki & Nguo as**

	<b>As at 31/12/2019</b>	
	<b>Khaki</b>	<b>Nguo</b>
	<b>Kshs</b>	<b>Kshs</b>
Fixed assets	10,000,000	8,000,000
Investment In Ndege	6,000,000	
	<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>
<b>Financed by:</b>		
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	9,000,000	4,000,000
	<u>18,500,000</u>	<u>9,500,000</u>

**Additional information:**

1. Since its acquisition, Company Nguo has not issued any shares.
2. Khaki does not accrue any dividend receivable from Nguo.
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 2018	1,520,000
31st December 2019	1,140,000
5. Included in the debtors of Khaki is an amount of Sh. 500,000 receivable from Nguo. The same has been accounted for in Nguo as creditors.
6. Included in the stock of Nguo are sh. 1,000,000 worth of goods acquired from Khaki. Khaki sells all stock and any other commodities to Nguo at cost plus 25% mark up.
7. Included in the fixed assets of Nguo is an item of fixed asset acquired from Khaki at a cost of Sh. 2,000,000. Nguo depreciates fixed assets at 20% on straight line with a full charge in the year of acquisition.

**REQUIRED**

- a) Calculate the goodwill on acquisition **(5 marks)**
- b) Calculate the consolidated reserves **(5 marks)**
- c) Calculate the value minority interest (5 marks)
- d) Prepare the Khaki consolidated Balance sheet as at 31<sup>st</sup> December 2012. **(10 marks)**  
**(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	900,000	
<b>Current assets</b>		
Stock	320,000	130,000
Debtors	270,000	170,000
Bank	<u>10,000</u>	<u>20,000</u>
	<b>2,100,000</b>	<b>780,000</b>
<b>Financed by:</b>		
Share capital	1,000,000	500,000
Retained profits	<u>850,000</u>	<u>120,000</u>
	1,850,000	620,000
Liabilities	<u>250,000</u>	<u>160,000</u>

2,100,000

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

#### Cooperative accounts

### 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.