



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC 4307: ADVANCED ACCOUNTING II

SPECIAL/ SUPPLEMENTARY EXAM

SERIES: AUGUST 2024

TIME: 2 HOURS

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 (Compulsory)

- (a) The Rugby Ltd has a 75% subsidiary, Stafford Ltd, and is preparing its consolidated statement of financial position as at 31st December 20x6. The carrying amount of property, plant and equipment in the two companies at the date is as follows:-

Rugby Ltd.	Sh.260,000,000
Stafford Ltd.	Sh. 80,000,000

On 1st January 20x6 Stafford Ltd had transferred some equipment to Rugby Ltd for sh.40 million. At the date of transfer the equipment, which had cost sh.42 million, had a carrying amount of sh. 30 million and a remaining useful life of five years. The group accounting policy is to depreciate equipment on a straight-line basis down to a nil residual value. It is also group policy not to revalue equipment.

Required:

Determine the figure that will be disclosed as the carrying amount of property, plant and equipment in the consolidated statement of financial position of Rugby Ltd as on 31st December 20x6. **(6 marks)**

- (b) The statement of changes in equity of Suton Ltd shows the following in respect of retained earnings.

	Sh.000
Balance brought forward	21,000
Total comprehensive income for the year	10,000
Interim dividend paid	<u>(7,000)</u>
Balance carried forward	<u>24,000</u>

80% of the share capital of Suton Ltd had been acquired by Tiwi Ltd some years ago when Suton Ltd's retained earnings amounted to sh.5 million.

Required:

- (i) How much of Suton Ltd's retained earnings will be included in closing consolidated retained earnings? **(2 marks)**
- (ii) How much of Suton Ltd's profit for the period is included in the consolidated profit for the financial year attributable to the owners of Tiwi Ltd? **(2 marks)**
- (iii) If the non-controlling shareholders' interest in Suton Ltd amounted to sh.5.2 million at the start of the year, how much will it be at the end of the year? **(2 marks)**
- (c) The summarized statements of financial position of KOSE Ltd and SIELE Ltd as at 31st December 20x9 were as follows:

Kose Ltd		Siele Ltd	
Sh.000	Sh.000	Sh.000	Sh.000

ASSETS

Non-current assets

Property, Plant and equipment	80,000		58,200
Investment	<u>84,000</u>		<u>-</u>
	164,000		58,200

Current Assets

Inventories	18,000	12,000	
Trade and other receivables	62,700	21,100	
Investments	-	2,500	
Cash and cash equivalents	10,000	3,000	
Current account – Kose Ltd	<u>-</u>	<u>3,200</u>	
	<u>90,700</u>		<u>41,800</u>
Total Assets	<u>254,700</u>		<u>100,000</u>

EQUITY AND LIABILITIES

Equity

Ordinary Share Capital (sh.1 shares)	120,000	60,000	
	18,000		-
Share Premium Account	23,000	16,000	
Revaluation Surplus	<u>56,000</u>	<u>13,000</u>	
Retained earnings	217,000	89,000	
Total equity			

Current liabilities

	35,000	11,000	
Trade and other payables	<u>2,700</u>	<u>-</u>	
Current account – Siele Ltd	<u>37,700</u>	<u>11,000</u>	
	<u>254,700</u>		<u>100,000</u>

Total equity and liabilities

The following information is relevant:

- 1) On 1st January 20x7 Kose Ltd acquired 48 million shares in Siele Ltd for sh.84 million cash when the retained earnings of Siele Ltd were sh.8 million and the balance on the revaluation surplus was sh.16 million.
- 2) The inventories of Kose Ltd include sh.4 million of goods from Siele Ltd invoiced to Kose Ltd at cost plus 25%.
- 3) A cheque for sh.500,000 from Kose to Siele Ltd, sent before 31st December 20x9, was not received by the latter company until January 2010.

- 4) An impairment review at 31st December 20x9 revealed that goodwill in respect of Siele Ltd had fallen in value over the year by sh.0.5 million. By 1st January 20x9 this goodwill had already suffered impairment totaling sh.1.7 million.

Required:

- a) Prepare the consolidated statement of financial position of Kose Ltd and its subsidiary Siele Ltd as at 31st December 20x9. **(12 marks)**
- b) Explain the adjustments necessary in respect of intra-group sales when preparing the consolidated statement of financial position of the Kose Ltd. Group. **(6 marks)**
- (Total - 30 marks)**

Question TWO

Draft income statements and summarized statements of changes in equity of H Ltd and its subsidiary D Ltd for the year ended 30th June 20x7 are as follows:

	H Ltd	D Ltd
	Sh.000	Sh.000
Revenue		108,400
Cost of sales	159,800	<u>(61,600)</u>
Gross profit	<u>(79,200)</u>	46,800
Administrative expenses	80,600	(16,000)
	(27,000)	
Investment Income:		
Ordinary share dividend		-
Loan interest	9,000	1,500
Finance cost	1,000	<u>(4,000)</u>
Profit before tax	<u>(6,000)</u>	28,300
Income tax expense	57,600	<u>(14,800)</u>
Profit for the period	<u>(29,400)</u>	<u>13,500</u>
	<u>28,200</u>	

Statements of Changes of Equity

	H Ltd	D Ltd
Opening equity		53,600
Profit for the period	133,400	13,500
Ordinary dividends	28,200	<u>(10,000)</u>
Closing equity	<u>(15,000)</u>	<u>57,100</u>
	<u>146,600</u>	

Additional Information:

1. H Ltd acquired its interest in D Ltd as follows:-
9 million of the 10 million sh.1 ordinary shares on 30th June 20x3 when the equity of D Ltd was sh.35 million (ordinary shares sh.10 million plus retained earnings sh.25 million).
2. H Ltd has not provided D ltd with any of its loan capital.
3. The revenue of H Ltd included sh.19 million in respect of goods sold to D Ltd at a price that yielded a profit of 20% on selling price. Sh.8 million of these goods were in the inventory of D Ltd at 30th June 20x7. Inventories of such goods at 30th June 20x6 amounted to sh.6 million.

Required:

- a) Produce the consolidated income statement and statement of changes in equity.

(15 marks)

- b) Explain the treatment of the intra-group sales between H Ltd and D Ltd.

(5 marks)

Question THREE

You are the accountant of Chaani Ltd, an entity preparing consolidated financial statements in accordance with international accounting standards. The entity has a number of investments in other entities but its two major investments are Mtwapa Ltd and Diani Ltd. The income statements of all three entities for the year ended 31st August 20x0 (the accounting reference date for all three companies) are given below:

	Chaani Ltd	Mtwapa Ltd	Diani Ltd
	Sh.000	Sh.000	Sh.000
Revenue	30,000	32,000	28,000
Cost of sales	<u>(15,000)</u>	<u>(16,000)</u>	<u>(14,000)</u>
Gross profit	15,000	16,000	14,000
Other operating expenses	(8,000)	(8,500)	(7,500)
Investment Income	2,350		
Finance cost	<u>(1,000)</u>	<u>(1,200)</u>	<u>(1,000)</u>
Profit before tax	8,350	6,300	5,500

Income tax expense	(1,900)	(1,900)	(1,650)
Profit for the period	<u>6,450</u>	<u>4,400</u>	<u>3,850</u>

Notes:

1. Intra-group trading

Chaani manufactures a product that is used by both Mtwapa and Diani. The revenue of Chaani for the year ended 31st August 20x0 included sh.6 million in respect of the sales of this product sh.4 million to Mtwapa and sh.2 million to Diani. These sales were all made at a mark-up of 25% on cost.

Opening and closing inventories of this product in the balance sheets of Mtwapa and Diani were:

	Mtwapa	Diani
	Sh.000	Sh.000
Closing inventories	1,000	600
Opening inventories	800	400

Apart from these transactions and the payments of dividends (see below) there were no other transactions between the three companies.

2. Dividends

During the year, Chaani and Diani paid dividends of sh.2 million and sh.1.5 million respectively. There were no dividends payable by either entity at the beginning or the end of the year.

3. Chaani's Investments in Mtwapa and Diani

Several years ago, Chaani acquired 75% of the issued ordinary share capital of Mtwapa, and 40% of the issued ordinary share capital of Diani. Goodwill in respect of both acquisitions was fully written off before the beginning of the 20x0 financial year.

Required:

Prepare the consolidated income statement of the Chaani group for the year ended 31st August 20x0.

(20 marks)

Question FOUR

a) Explain how the standard setting authority approaches the task of producing a standard, with particular reference to the ways in which comment or feedback from interested parties is obtained. **(5 marks)**

b) Discuss briefly why the development of international accounting standards is considered to be important. **(5 marks)**

c) C is a small developing country which passed a legislation to create a recognized professional accounting body two years ago. At the same time as the accounting body was created, new regulations governing financial reporting requirements of entities were passed.

C's government has asked the new professional accounting body to prepare a report setting out the country's options for developing and implementing a set of high quality local accounting standards. The government request also referred to the work of the IASB and its IFRSs (International Financial Reporting Standards).

Required:

As an advisor to the professional accounting body, outline THREE options open to C for the development of a set of high quality local accounting standards. Identify ONE advantage and ONE disadvantage of each option.

(10 marks)

(Total = 20 marks)

Question FIVE

The financial position of MASAIBU Ltd at 30th September 20x4 was as follows:-

	Sh.000	Sh.000	Sh.000
	Cost	Depn	Net
Non-Current Asset			

Freehold premises	100,000	20,000	80,000
Plant and equipment	250,000	60,000	190,000
Vehicles	<u>45,000</u>	<u>15,000</u>	<u>30,000</u>
	<u>395,000</u>	<u>95,000</u>	<u>300,000</u>
Current Assets		40,000	
Inventories		30,000	
Accounts receivables		<u>10,000</u>	
Bank		80,000	
Less			
Current Liabilities			
Accounts payable		(<u>140,000</u>)	
			(<u>60,000</u>)
			<u>240,000</u>
Financed by			
Share Capital			
Authorized			
150,000,000 7% preference shares of sh.1.00 per share		150,000	
400,000,000 ordinary share of sh.1.00 per share		<u>400,000</u>	
		<u>550,000</u>	
Issued and fully paid			
100 million 7% preference shares of sh.1.00 per share		100,000	
400 million ordinary shares of sh.1.00 per share sh.0.75 paid		<u>300,000</u>	400,000
			(<u>160,000</u>)
Reserves			<u>240,000</u>
Profit and Loss (debit balance)			

The 7% preference dividends are two years in arrears. The company had formulated an approval scheme of reorganization, to take effect on 1st October 20x4 which contained the following provisions.

1. The ordinary shares to be written down to sh.0.25 per share and then to be converted into new ordinary shares of sh.1.00 per share fully paid.
2. The preference shareholders are to receive 50 million ordinary shares of sh.1.00 per share, fully paid at par, in exchange for their preference shares.
3. In consideration for waiving their rights to arrears of preference dividend, the preference shareholders have agreed to accept 10 million new ordinary shares of sh.1.00 per share, fully paid, in full and final settlement.
4. The creditors have agreed to take 100 million new ordinary shares of sh.1.00 per share, fully paid at par, in part satisfaction of the sums due to them.
5. The adverse balance on profit and loss account is to be written off.
6. The undernoted revaluations are to be incorporated into the accounts.

	Sh.000
Freehold premises	100,000
Plant and Equipment	105,000
Vehicles	25,000
Inventories	36,000

And a provision for bad debts is to be raised at sh.1,000,000.

Required:

- a) Post the appropriate accounts to effect the reorganization, and (12 marks)
 - b) Prepare the balance sheet of Masaibu Co. Ltd immediately after all the reorganization entries have been posted. (8 marks)
- (Total = 20 marks)**