TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF SCIENCE IN MATHEMATICS AND FINANCE

BFI 4451 : FINANCIAL REPORTING

SPECIAL/ SUPPLEMENTARY EXAM 2025

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)

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		84,000		-
		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	-		3,200	
		90,700		41,800
Total Assets		254,700		100,000
EQUITY AND LIABILITIES				
Equity				
Ordinary Share Capital (sh.1		120,000		60,000
shares)		18,000		-
Share Premium Account		23,000		16,000
Revaluation Surplus		56,000		13,000
Retained earnings		217,000		89,000
Total equity				
Current liabilities	35,000		11,000	
Trade and other payables	2,700		-	
Current account – Siele Ltd		37,700		11,000
		254,700		100,000
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. **(25marks)**

b) Explain the adjustments necessary in respect of intra-group sales when preparing the consolidated statement of financial position of the Kose Ltd. Group. **(5 marks)**

(Total - 30 marks)

Question TWO

A. Explain the reason why IAS 12 (revised) requires companies to provide for deferred taxation on revaluations of assets and fair value adjustments on a business combination irrespective of the tax effect in the current accounting period. (6 marks)

B. Malindi Ltd was incorporated on 1 April 2010, in the year ended 31 March 2011 , the company made a profit before taxation of sh. 10,000 (depreciation charged being sh. 1,000,000). The company had made the following capital additions:

Plants	-sh 4,800,000
Motor Vehicles	-sh 1,200,000

Corporate tax is chargeable at the rate of 30%. Capital deductions are computed at the rate of 25%per annum on written – down value.

The Company has prepared capital expenditure budgets as at 31st March 2011 , which reveal the following patterns:

	Capital allowance	depreciation
	Sh. 000	Sh.000
Year to 31 March 2012	1,700	1,600
Year to 31 March 2013	2,300	1,900
Year to 31 March 2014	2,100	1,900
Year to 31 March 2015	1,500	2,100
Year to 31 March 2016	2,400	2,900
Year to 31 March 2017	2,500	2,000

From 1 April 2017 , capital allowance are expected to exceed depreciation charges each year.

Required:

i. Compute the corporation tax payable for year ending 31 March 2011. **(2marks)**
ii. Compute the deferred tax charge for the year ended 31 March 2011 on
   - Full-provision basis **(5marks)**
   - Partial provision basis **(7 marks)**

Question THREE

On 31 December 2022 fairway Ltd was incorporated with authorized share capital of sh. 100 million in shares of sh. 1 each to take over the business carried on at that date by the partnership of Pare, Green and Bogey.
The statement of financial position of the partnership on 31 December 2022, showed the following position:

		Cost	Depreciation	
		Sh.000	Sh.000	Sh.000
Non- current Assets				
Freehold land and buildings		26,000	-	26,000
Plant and machinery		42,000	22,000	20,000
Motor vehicle		19,700	4,700	15,000
		87,700	26,700	61,000
Current assets				
Inventory			22,400	
Accounts receivable			12,200	
Bank			19,750	
			54,350	
Less: accounts payable			(35,600)	
Net current assets				18,750
				79,750
Financed by:	Pare	Green	Bogey	
	Sh.000	Sh.000	Sh.000	Sh.000
Capital accounts	24,000	18,000	15,000	57,000
Current accounts:				
Balances as on 1 Jan 2022	11,940	8,480	6,000	
Add: Interest on capital accounts	720	540	450	
Share of profit for the year	6,126	6,126	4,084	
	18,786	15,146	10,534	
Less drawings	8,926	8,726	4,064	
	9,860	6,420	6,470	22,750

				79,750

Additional information:

1. Free hold land buildings are to be transferred to the Fairway Ltd company at a valuation of sh. 30 million and plant and machinery at sh. 15 million. Inventory, accounts receivable and accounts payable are to be transferred to the company at net book value as on 31 December 2022.
2. The motor vehicle are to be withdrawn from the business by the partners at the following valuations: Pare sh.4.9 million, Green sh. 3.5 million , and Bogey sh. 3.6 million.
3. It is estimated that the company will require an opening balance at bank of sh. 15 million.
4. Sufficient 9%unsecured loan stock is to be issued by the company to the partners so that they will receive the same interest as they received on capital in the partnership for the year ended 31st December 2022
5. Ordinary shares are to be issued at par to each partner in proportion to their share in the partnership profits.
6. Any surplus or deficiency on partners' accounts on realization after taking into account loan stock and shares issued is to be withdrawn or paid in, whichever the case may be.

Required:

a) Compute the amount of shares and loan stock in Fairways company Ltd to be issued to each partner **(6marks)**

b) Partners' accounts in columnar form, showing all the necessary entries to dissolve the partnership and **(6marks)**

c) A statement of financial position upon completion **(8marks)**

(Total 20 marks)

Question FOUR.

The trial balance of Quartz Co. Ltd on 31 December20x 3 was as follows:

	Dr	Cr.
	Sh.000	Sh.000
Preference share capital of sh. 1.00 shares		200,000
Ordinary share capital of sh. 1.00 shares		1,000,000
Foreign exchange reserve		75,000
General reserve		150,000
Retained earnings account at 31.12.20x2		215,000
Sales		4,575, 000
Purchases	2,196,000	
Carriage inwards	38,000	
Inventory as at 31.12. 20x 2	902,000	
Wages (adding value to goods)	35,000	
Wages: warehousing	308,000	
Wages and salaries: administrative	220,000	
Wages and salaries: sales	197,000	
Motor vehicle expenses	167,000	
Bad debtors	31,000	
Debenture interest	40,000	
Bank overdraft interest	19, 000	
General distribution expenses	81,000	
General administrative expenses	73,000	
Directors' remunerations	210,000	
Investments in related companies	340,000	
Discounts allowed	55,000	
Discounts received		39,000
Income from shares in related companies		36,000
Profit on property sale		100,000
Building: at cost	1,200,000	
Plant machinery: at cost	330,000	
Motor vehicles: at cost	480,000	
Allowances for depreciation:		
Land and buildings		375,000
Plant machinery		195,000

Motor vehicles		160,000
Goodwill	40,000	
Patents, licenses, and trade marks	38,000	
Trade receivables	864,000	
Trade payables		392,000
Bank overdraft		21,000
Debentures 10%		400,000
	7,933,000	7,933,000

Notes

a) Inventory at 31.12, 20x3: sh. 1,103,000,000 at cost.
b) Motor expenses and depreciation on motors to be apportioned: distribution 75% administrative 25%.
c) Depreciation on buildings and plant and machinery to be apportioned: distribution 50%; administrative 50%.
d) Depreciation on cost: motor vehicles 25%; plant and machinery 20%.
e) Accrued corporation tax on profits of the year sh. 236,000,000. This is payable 1 October, 20x4.
f) A preference dividend of 10% is to be paid and an ordinary shares dividend of 50% is to be proposed.
g) During the year new motor vehicles were purchased at a cost of 60 million.
h) During June 20x3 one of the buildings ,which had originally cost sh. 130 million, and which had written –down value at the date of the sale of sh. 80 million was sold for sh. 180 million .The profit of sh. 100 million is regarded as an extraordinary. The capital gains tax liability will be sh. 30 million . Depreciation on buildings is to be charged against the year's profit amount to sh. 60 million. The buildings are revalued at sh. 1.5 billion at 31.12.20x3 (and this figure is to be included in the accounts).
i) Directors' remuneration was follows:

	Sh.0000
Marketing	42,000
Chairman	37,000
Managing	61,000
Finance	50,000
	190,000

In additional, each director drew sh. 5 million fees.

j) Of the goodwill , 50% is to written off during this year, and 50% in the following year.

k) The debentures are to be redeemed in five equal annual instalments, starting in the following year 20x4.

l) The investments are listed companies with a market value at 31st December 20x3 of 438 million.

m) Auditors' fees, including expenses, amount to sh. 7 million

Required:

Prepare :

(i) the income statement for the year ended 31st December 20x 3for Quartz co Ltd, and **(12 marks)**

(ii) Balance sheet as at 31 December 20x3 **(8 marks)**

The above statements should conform to the requirements of the Companies Act for publication and they should be accompanied by the notes necessary to the accounts.

Question FIVE.

a)With reference to IAS 19 (retirement benefit costs), explain the following terms:

i. Experience adjustments **(2marks)**

ii. Accrued benefit valuation methods **(2 marks)**

iii. Current service cost **(2 marks)**

iv. Vested employee benefits **(2 marks)**

b) The balances of a defined benefit plan in a company are as follows:

	Sh.000
Present value of obligations	110,000
Unrecognized actuarial losses	11,000
Unrecognized increase in liability	
on introduction of new standard	(5,000)
Past service costs (unrecognized)	7,000
Fair value of assets	119,000
Present value of available future refunds and reductions	10,000

Required:

Compute the amount of defined benefits liability (asset). (**12 marks)**

(**Total marks = 20)**