TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION

BAC 4305: ADVANCED ACCOUNTING II

SUPPLEMENTARY/SPECIAL EXAMINATIONS
SERIES: MARCH 2014
TIME: 2 HOURS

INSTRUCTIONS:

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.
This paper consists of Five printed pages

QUESTION 1 (Compulsory)

a) Discuss the nature of accounting standards and set out the reasons for establishing standards. **(12 marks)**

b) Draft income statements and summarized statements of changes in equity of H. Ltd and its subsidiary S. Ltd for the year ended 31st December 20 x 4.

	H	S
Revenue	2,100	1,200
Cost of sales	(1,850)	(1,066)
Gross Profit	250	134
Distribution costs	(50)	(20)
Administrative expenses	(30)	(14)
Investment income	16	-
Profit before tax	186	100
Taxation	(80)	(40)
Profit for the period	106	60

Statement of changes in equity for 31.12. 20 x 4

	H	S
Balance at start of the year	140	70
Profit for the period	106	60
Dividends	(40)	(20)
Balance at end of the year	206	110

H Ltd acquired 80% of the shares in S when S's equity (share capital plus retained earnings) was sh. 40,000,000. Goodwill of sh. 12,000,000 was fully written off to consolidated retained earnings at 31.12.20 x 3, following an impairment review.

Required:
Prepare the consolidated income statement and the consolidated statement of changes in equity of the H group for the year ended 31st December 20 x 4. **(18 marks)**

QUESTION 2

The balance sheets of Big and Small as at 31st March 2013 are given below. The balance sheet of small is prepared in florins, the reporting currency for small-the subsidiary company.

	Big		**Small**	
	Sh. '000'	**Sh. '000'**	**Fl' 000**	**Fl' 000**
Non-current assets			80,000	
Property, plant & equipment	60,000		-	
Investments	9,500		______	
		69,500		80,000
Current assets				
Inventories	30,000		40,000	
Trade receivables	25,000		32,000	
Cash	3,000		4,000	
		58,000		76,000
		127,500		**156,000**
Issued capital and reserves				
Shares capital		30,000		40,000
(50 cents/ ½ florin shares)				
Revaluation reserve		15,000		-
Retained earnings		34,500		44,000
		79,500		84,000
Non-current liabilities				
Interest-bearing borrowings	15,000		30,000	
Deferred tax	5,000		9,000	
		20,000		39,000
Current liabilities				
Trade payables	12,000			
Tax	16,000	28,000		33,000
		127,500		**156,000**

Notes

1. Investment by Big in Small

On 1st April 2007, Big purchased 60 million shares in Small for 57 million Florins. The retained earnings of Small showed a balance of 20 million Florins at that date. The accounting policies of Small are the same as those of Big except that Big revalues its land, whereas Small carries its land at historical cost. Small's land had been purchased on 1st April 2004. On 1st April 2007, the fair value of the land of Small was 6 million florins higher than its carrying value in the individual financial statements of that entity. By 31st March 2013, the difference between fair value and carrying value had risen to 11 million florins. Apart from this accounting policy difference, no other fair value adjustments were necessary when initially consolidating Small as a subsidiary.

2. Intra-group trading

On 6th March 2013, Big sold goods to Small at an invoiced price of sh. 6,000,000, making a profit of 25% on cost. Small recorded these goods in inventory and payable using an exchange rate of 5 florins to sh. 1 (there were minimal fluctuations between the two currencies in the month of March 2013). These goods remained in the inventory of Small at 31st March 2013 but on 29th March 2013 Small sent Big a cheque for 30 million florins to clear its payable. Big received and recorded this cash on 3rd April 2013.

3. Exchange rates

Date	**Exchange rate (F/s to sh. 1**
1st April 2004	7
1 April 2007	6
31st March 2012	5.5
31st March 2013	5.0
Weighted average for the year to 31.3.2013	5.2
Weighted average for the dates of Acquisition of closing inventory	5.1

Required:

Translate the balance sheet of Small as at 31st March 2013 into shillings and prepare the consolidated balance sheet of the Big group as at 31st March 2013. **(20 marks)**

QUESTION 3

Discuss the major sources of accounting authority. (**20 marks)**

QUESTION 4

a) To be useful, financial information in addition to being relevant and reliable must be comparable. Identify and describe **EIGHT** items that adversely affect the comparability of financial statements prepared in different countries. **(10 marks)**

b) The regulation of the form and content of financial of the form and content of financial statements is unnecessary because a free market in financial information would provide all the relevant information that shareholders in an enterprise may require. Do you agree or not agree with this statement? Discuss. **(10 marks)**

QUESTION 5

The balance sheet of SAD Limited as at 30th June, 2010 was as follows:

Fixed assets:		**Sh. '000'**
Freehold land and buildings		34,000
Plant		96,000
Tools and dies		27,300
Investments		15,000
Current assets:		
Inventory		42,500
Accounts Receivable		53,400
Research and development expenditure		18,000
		286,200
Share capital: authorized,		
Issued and fully paid:		
100,000 6% Cumulative preference shares		100,000
300,000 ordinary shares at sh. 0.50 each		150,000
		250,000
Less profit and loss account; Debit balance		98,000
		152,000
7% Debentures	6,000	
Interest due	4,200	64,200
Bank overdraft, secured on freehold land and		
Buildings and plant		20,000
Accounts payable		50,000
		286,200

The scheme of reorganization detailed below has been agreed by all the interested parties and approved by the court.

1. The following assets are to be revalued as shown below:

	Sh.
Plant	59,000
Tools and dies	15,000
Inventory	30,000
Accounts Receivable	49,700

2. The research and development expenditure and the balance on profit and loss account are to be written off.

3. A piece of land recorded in the book at sh. 6,000,000 is valued at sh. 14,000,000 and is to be taken over by the debenture holders in part of payment of principal. The remaining freehold land and buildings are to be revalued at sh. 40,000,000.
4. A creditor for sh. 18,000,000 has agreed to accept a second mortgage debenture of 10% per annum secured on the plant for sh. 15,500,000 in settlement of his debt. Other creditors totaling sh. 10,000,000 agree to accept a payment of sh. 0.85 in the sh. 1 for immediate settlement.
5. The investments at a valuation of sh. 22,000,000 are to be taken over by the bank.
6. The ascertained loss is to be met by writing down the ordinary shares to sh. 0.50 each and the preference shares to sh. 0.80 each. The authorized share capital to be increased immediately to the original amount.
7. The ordinary shareholders agree to subscribe for two new ordinary shares at par for every share held. This cash is all received.
8. The costs of the scheme are sh. 3,500,000. These have been paid and are to be written off. The debenture interest has also been paid.

Required:

a) The journal entries for recording the above transactions in the books, including cash; and **(10 marks)**

b) A balance sheet of the company as at 1st July 2010 after completion of the scheme. **(10 marks)**