MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE: 10/11/2020 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer question one and any other two questions.
Show your working where necessary.

QUESTION ONE: COMPULSORY (30 MARKS)

a) Explain FOUR factors that may necessitate external reconstruction of a company. (4 marks)

b) Differentiate between a joint venture and an associate company. (4 marks)

c) Explain the following terms as used in accounting. Give TWO examples in each case.

i) Operating activities (2 marks)

ii) Investing activities (2 marks)

iii) Financial activities (2 marks)

d) The following information is provided relating to the carrying amount of the assets comprising the cash generating units of Alexo Ltd as at 30 September 2019.

	Cash generating Unit 1	Cash generating Unit 2
	Sh.	Sh.
Goodwill	-	25,000,000
Tangible fixed assets	26,000,000	107,000,000
Inventories	22,000,000	23,000,000

The accountants of Alexo Ltd have prepared the following cash forecasts relating to the business operations of the two cash generating units.

Year	Cash generating unit 1	Cash generating unit 2
	Sh.	Sh.
1	8,000,000	20,000,000
2	6,000,000	22,000,000
3	9,000,000	27,000,000
4	10,000,000	24,000,000
5	11,000,000	15,000,000
6	12,000,000	30,000,000

-The net realizable value of the assets of the cash generating unit 1 is Sh. 50 million and that of the assets of cash generating unit 2 is sh. 70 million.

-The discount rate appropriate to the activities of cash generating unit 1 is 10% and that of cash generating unit 2 is 12%.

Required:

i) The recoverable amount of cash generating unit 1 and cash generating unit 2 (6 marks)

ii) The impairment loss if any, for cash generating unit 1 and cash generating unit 2 (2 marks)

iii) Allocate the loss if any, between the assets of cash generating unit 1 and cash generating unit 2. (4 marks)

e) Highlight the items that should be included in the income statement of a pension plan. (4 marks)

QUESTION TWO (20 MARKS)

a) In the context of accounting for long term contracts, briefly explain the following terms.

i) Retention money (2 marks)

ii) Escalation clause (2 marks)

b) Mwako and Mjengo is a firm building contractors. The following information pertains to its uncompleted contracts as at 31 October, 2019.

Contract	A	B	C	D
Date commenced	1 Nov 2018	1 Dec 2018	1 Nov 2018	1 Aug 2019
Expected completion date	28 Feb 2020	31 Jan 2020	30 Nov 2019	31 Jan 2021
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Costs incurred up to 31 Oct 2019	127,200	45,600	12,000	3,200
Estimated further costs to completion	28,800	12,000	1,600	49,600
Value of work certified as at 31Oct 19	160,000	40,000	14,400	-
Contract Price	208,000	52,000	16,800	60,000
Progress payments received and receivable as at 31 Oct 2019	140,000	32,000	-	-

Required:

i) A schedule showing the profit (or loss) which should be recognized in the profit and loss account of Mwako and Mjengo for each of the four contracts, for the year ended 31 October 2019. (12 marks)

ii) The value of work in progress (WIP) which should be reported in the balance sheet of Mwako and Mjengo in respect of each of the four contracts as at 31 October 2019. (4 marks)

QUESTION THREE (20 MARKS)

The consolidated financial statements for Hipa group for the year ended 30 September 2019 together with the comparative statement of financial position for the year ended 30 September 2018 are shown below.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMEBR 2019

	Sh. 'm'	**Sh. 'm'**
Revenue		3820
Cost of sales		(2620)
Gross profit		1200
Operating expenses	300	
Finance costs	30	(330)
Profit before tax		870
Share of profit after tax- Associate		20
Income tax expense		890
Income tax expense		(270)
		620
Profit attributable to NCI		40
Profit attributable to holding company		580

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER

		2019		**2018**
Non – Current Assets				
PPE		1890		1830
Intangible assets		650		300
Investment in associate		95		80
Total		2635		2210
Current Assets				
Inventory	1420		940	
Accounts receivable	990		680	
Cash	70	2480	-	1620
Total Assets		**5115**		**3830**
Equity and Liabilities				
Ordinary shares (Sh.. 10 each)		750		500
Share premium		350		100
Revaluation reserve		140		-
Retained profit		1570		1380

Total		2810		1980
Non-controlling interest		135		100
Total shareholders' funds		**2945**		**2080**
Non-Current liabilities				
10% debentures	300		100	
Bank loan	260		300	
Deferred tax	310	870	140	540
Current Liabilities				
Accounts payable	875		730	
Bank overdraft	-		115	
Accrued loan interest	15		5	
Proposed dividends	280		200	
Current tax	130	1300	160	1210
		5115		**3830**

Additional Information:

i) The cost of sales includes depreciation of property, plant and equipment amounting to Sh. 320 million and a loss on sale of plant of Sh. 50 million.

ii) Intangible assets comprise

	2019	**2018**
	Sh. 'm'	Sh. 'm'
Goodwill	180	200
Others	470	100
Total	650	300

Included in the amount above were intangible assets acquired during the year ended 30 September 2019 for Sh. 500 million

iii) During the year ended 30 September 2019 the holding company acquired a new plant which cost Sh. 250 million. The company also revalued its buildings by Sh. 200 million.

iv) On Oct. 1, 2018 the holding company had a bonus issue of one share for every ten shares held. The issue was financed through the revaluation reserve.

v) The detailed analysis of retained profits was as follows :

	2019	**2018**
	Sh 'm'	Sh 'm'
Balance b/f	1380	1200
Profit for the year	580	480
Total	1960	1680
Transfer from revaluation	10	-

reserve		
Dividends proposed and paid	(400)	(300)
Balance carried forward	1570	1380

Required:

Group cash flow statement for the year ended 30 September 2019 in conformity with IFRS 7. Use indirect method.

QUESTION FOUR (20 MARKS)

Pungufu Ltd which has been posting trading losses has decided to re-organize its capital on 31 October 2019, a trial balance extracted from the books of the company after the income statement had been prepared, showed the following;

Details	Sh. '000'	Sh. '000'
6% cumulative pref. share capital (Sh.10 per value)		150,000
Ordinary share capital (sh.10 per value)		200,000
Share premium		40,000
Accumulated losses	114,375	
Preliminary expenses	7,250	
Goodwill	55,000	
Trade payables		43,500
Trade receivables	31,200	
Bank overdraft		51,000
Leasehold property: Cost	80,000	
Accumulated depreciation		30,000
Plant and machinery - Cost - Accumulated depreciation	210,000	62,500
Inventory	79,175	

Approval of the court was obtained for a scheme of capital reduction whose terms were as follows:-

i) The par value of the preference shares was to be reduced to Sh. 7.5 per share.
ii) The par value of the ordinary shares was to be reduced to Sh. 1.25 per share
iii) One Sh. 1.25 ordinary share was to be issued for each Sh. 10 preference dividend in arrears. The preference dividend had not been paid for the past three financial years (Financial year to 31 October 2019 inclusive)
iv) The balance on the share premium account was to be utilized for purposes of capital reduction.
v) The value of plant and machinery was to be written down to Sh. 75 million
vi) The accumulated losses as well as goodwill were to be written off.

vii) After the resolution authorizing the scheme of capital reduction had been passed 50 million ordinary shares were issued at par for cash payable in full upon application.

Assume all transactions were completed on 31 October 2019.

Required:

a) Capital reduction account as at 31 October 2019 (8 marks)

b) Ordinary Share Capital account & Bank account (8 marks)

c) Statement of financial position as at 1 November 2019 after completion of all the transactions. (4 marks)

QUESTION FIVE (20 MARKS)

Meza Limited purchased 80% of the Ordinary share capital of Kijiko Limited on 31 January 2019 for Sh. 440 million and 50% of the ordinary share capital of Sahani Ltd on 31 July 2018 for Sh. 112 million. Profits in all companies are deemed to accrue evenly over the year. The draft statements for the three companies are shown below.

Profit & Loss Account for the year ended 30 April 2019

	Meza Ltd	Kijiko Ltd	Sahani Ltd
	Sh. 'Million'	Sh. 'Million'	Sh. 'million'
Sales	2346	2400	1400
Cost of Sales	(1564)	(1620)	(840)
Gross Profit	782	789	560
Distribution Costs	(310)	(400)	(200)
Administrative Expenses	(240)	(200)	(180)
Profit from operations	232	180	180
Interest on debentures	(42)	_	_
Profit before Tax	190	180	180
Taxation	(72)	(40)	(20)
Profit after Tax	118	140	160
Dividends proposed	(63)	(40)	(40)
Retained Profit for the year	55	100	120
Retained Profit b/d	120	190	(40)
Retained Profit c/d	**175**	**290**	**80**

Balance Sheet as at 30 April 2019

	Meza Ltd	Kijiko Ltd	Sahani Ltd
	Sh. 'Million'	Sh. 'million'	Sh. 'Million'
ASSETS			
Non-Current Assets			
Property, plant & eqpt(NBV)	414	280	220
Investments	552	–	–
	966	280	220
Current Assets			
Stock	180	210	70
Debtors	240	140	56
Bank	28	12	21
	448	362	147
Total Assets	**1414**	**642**	**367**
EQUITY & LIABILITIES			
Share Capital			
Ordinary Shares Sh.10 each	700	200	200
Retained earnings	175	290	80
Shareholders' funds	875	490	280
Non- Current Liabilities			
15% Debentures	280	–	–
Current Liabilities			
Creditors	189	109	45
Tax payable	7	3	2
Proposed Dividends	63	40	40
Total Equity & Liabilities	**1414**	**642**	**367**

Additional Information:

i. Meza Ltd has not yet accounted for dividends receivable from either Kijiko Ltd or Sahani Ltd.

ii. Meza Ltd and Kabati Ltd have a joint control in Sahani Ltd.

Required:

Prepare Group Statement of Comprehensive income for the period ended 30 April 2019.