



MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR
BACHELOR COMMERCE**

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE: 6/12/2017

TIME: 8.30-10.30 AM

INSTRUCTIONS:

- i. Answer question one and any other two questions.
- ii. Marks allocated for each question are shown at the end of the question.
- iii. Show your working where necessary.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Briefly explain five social responsibilities of a business enterprise (5 marks)
- b) Distinguish between;
 - (i) Internal reconstruction and external reconstruction (2 marks)
 - (ii) Subsidiary and joint venture (2 marks)
 - (iii) Funded pension scheme and unfunded pension scheme (2 marks)
- c) ABC Ltd contributes Sh. 30 million to a pension scheme while the regular cost is Shs.30 million per annum. The deficit as at July 1st, 2007 was Sh. 600 million. The actuary recommended that the deficit be cleared within 4 years by paying Sh. 150 m per annum in addition to the annual service cost. The average remaining service life for the employees in the scheme on July 1, 2008 was 8 years.

Required:

For each of the remaining 8 service years calculate the pension expense and the pension liability (7 marks)

- d) Kubwa Ltd acquired 80% of the ordinary share capital in Ndogo Ltd on 1 January 2014 when Ndogo Ltd retained earnings were Shs.30 m . The market value of Ndogo Ltd ordinary share as at that date was Sh. 0.5 per share. Kubwa Ltd and Ndogo Ltd statements of financial position as at 31 December 2014 were as follows:-

	Kubwa Ltd	Ndogo Ltd
Assets	Sh. ‘000’	Sh.‘000’
Non - Current Assets		
Property, plant and equipment	60,000	50,000
Investment	136,000	-
Total	196000	50000
Current Assets		
Inventory	40,000	80,000
Cash and bank balances	16,000	12,000
Total	56000	92000
Total Assets	252,000	142,000
Equity and Liabilities		
Ordinary share capital (Sh. 1 par value)	200,000	100,000
Retained earnings	40,000	35,000
Total	240,000	135,000
Current Liabilities		
Accounts payable	12,000	7,000
Total Equity & Liabilities	252,000	142,000

Required: Determine the value of Goodwill using:

- i) Partial Goodwill method (3 marks)
- ii) Full goodwill method (3 marks)

- c) The following information was extracted from the books of XYZ Ltd relating to its assets.

Details	A	B	C
	Sh. ‘m’	Sh. ‘m’	Sh. ‘m’
Carrying amount	100	150	120
Net realizable value	110	125	100
Value in use	120	130	90

Required:

- i) Determine the recoverable amount of each asset (3 marks)
- ii) Determine the impairment loss if any. (3 marks)

QUESTION TWO (20 MARKS)

Agano Ltd acquired 72% of the ordinary Shares of Dando Ltd on 1 July 2016 for Sh. 250 million.
On 31 August 2016, the statements of financial position for the two companies were as follows.

	Agano Ltd Sh. 'm'	Dando Ltd Sh. 'm'
Non-Current Assets		
Property plant and equipment	223	270
Investment in Dando Ltd	250	-
Total	473	270
Current Assets		
Inventory	50	62
Trade receivables	60	48
Cash and cash equivalents	19	14
Total	129	124
Total assets	602	394
EQUITY AND LIABILITIES		
Ord. share capital (Sh. 1 each)	300	200
Share premium	40	10
Retained Earnings b/d	150	40
Profit for the year	60	24
	550	274
NON-CURRENT LIABILITIES		
3% debentures	40	100
Current liabilities		
Trade payables	12	20
Total Equity and liabilities	602	394

Additional information

- i) On 31 July 2016, Dando sold an item of property, plant and equipment to Agano Ltd realizing a profit on sale of Sh. 20 million. Agano Ltd was depreciating this item over its remaining useful life of 4 years. It is the group's policy to charge a full year's depreciation in the year of purchase and none in the year of disposal.
- ii) On 29 August 2016, Agano Ltd sold goods to Dando Ltd for Sh. 26 m. Agano Ltd sells goods at a mark-up of 30%. Dando Ltd had sold a quarter of these goods by 31 August 2016.
- iii) As at 31 August 2016 the trade receivable of Agano ltd included Sh. 12 m due from Dando Ltd while the trade payables of Dando Ltd included Sh. 7 million due to Agano Ltd.
- iv) Goodwill was impaired by 25% as at 31 August 2016.
- v) Agano Ltd and Dando Ltd had declared dividends of Sh.15 million and Sh. 10 million respectively before 31 August 2016 but had not adjusted for them.
- vi) Goodwill attributable to non-controlling interest was valued at Sh. 9.4 million.

Required:

Consolidated statement of financial position as at 31 August 2009

(20 marks)

QUESTION THREE (20 MARKS)

Pungufu Ltd which has been posting trading losses has decided to re-organize its capital on 31 October 2016, a trial balance extracted from the books of the company after the income statement had been prepared, showed the following;

Details	Shs '000'	Shs '000'
6% cumulative pref. share capital (Sh. 10 par value)		150,000
Ordinary share capital (Sh. 10 par 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	210,000	
- Accumulated depreciation		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 2016 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 2016.

Required:

- a) Capital reduction account as at 31 October 2016. (10 marks)
- b) Ordinary Share Capital account & Bank account (4 marks)
- c) Statement of financial position as at 1 November 2016 after completion of all the transactions. (6 marks)

QUESTION FOUR (20 MARKS)

The consolidated financial statements for Hipa group for the year ended 30 September 2014 together with the comparative statement of financial position for the year ended 30 September 2013 are shown below.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMEBR 2014

	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

		2014		2013
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
		<u>5115</u>		<u>3830</u>

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

	2014	2013
	Sh. 'm'	Sh. 'm'
Goodwill	180	200
Others	470	100
Total	650	300

Included in the amount above were tangible assets acquired during the year ended 30 September 2014 for Sh. 500 million

- iii. During the year ended 30 September 2014 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, 2013 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 :

	2014	2013
	Sh. 'm'	Sh. 'm'
Balance b/f	1380	1200
Profit for the year	580	480
Total	1960	1680
Transfer from revolution reserve	10	-
Dividends proposed and paid	(400)	(300)
Balance carried forward	1570	1380

Required:

QUESTION FIVE (20 MARKS)

- (a) Explain the differences between a fixed price contract and a cost- plus contract (4 marks)
- (b) Jenga Ltd is a construction company whose financial year ends on 31 March. The information provided below was extracted from the books of the company in connection with the three construction contracts undertaken by the company during the financial year ended 31 March, 2016.

	Contract no 468 Shs.'000'	Contract no 469 Shs.'000'	Contract no 470 Shs.'000'
Contract price	3600	4800	2500
Cost incurred up to 31 March 2015	1800	3000	1500
Cost incurred during the year	600	1000	500
Estimated total cost of the contract	3000	5200	2300
Total billings to date	2800	4500	1800
Total cash received to date	2600	4200	1700
Total profit / (loss) reported on the contract to date	360	30	(20)
General administration expenses	60	120	30

Required: Using the percentage of completion method of accounting for long-term construction contracts:

- (a) Calculate the profit or loss realized on each contract for the year ended 31 March 2016. (4 marks)
- (b) Prepare profit and loss A/C extracts for each contract for the year ended 31 March 2016. (4 marks)
- (c) Prepare balance sheet extracts as at 31 March 2016 (16 marks)