



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

THIRD YEARSEMESTER EXAMINATION FOR
BACHELOR OF COMMERCE (FINANCE OPTION)

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE:

TIME:

INSTRUCTIONS

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

QUESTION ONE: COMPULSORY (30 MARKS)

- a) During the post - acquisition period, H Limited (Parent Company) sold goods to S Limited (Subsidiary) for Sh. 750,000 making a profit of 50% on cost. All goods remained in store of S Limited as at the year end. The inventory of H Limited and S Limited at the end of the year were Sh. 1,025,000 and 2,040,000 respectively.

Required: Group Inventory Account.

(3 marks)

- b) 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. (4 ½ marks)
- ii) Determine the impairment loss if any (4 ½ marks)

NOTE: Discount factors to be rounded to four (4) decimal places.

- c) A Kenyan Company Mamboleo Ltd. closes its books of account on 31 March each year. On 1 January 2021 it purchased equipment from Waba Company in Uganda on credit for Ush. 9,000,000 when the exchange rate was; Ush. 30 for Ksh 1. The asset was paid for on 31 March, 2021 when the exchange rate was Ush. 31.30: Ksh 1.

Required:

- i) Show the journal entry in the books of Mamboleo Ltd to record the transaction on 1 January, 2021. (3 marks)
- ii) In the books of Mamboleo Ltd, show Waba Company Account as at 31 March, 2021.

(3 marks)

- d) ABC Ltd contributes Sh. 30 million per annum as regular cost to a pension scheme on behalf of its employees. As at 1 January 2018 the deficit was estimated at Sh. 600 million. The actuary recommended that the deficit be cleared within four years by paying Sh. 150 million per annum in addition to the annual service cost. The average remaining service life of the employees in the scheme on 1 January 2018.

Required:

For each of the remaining eight service years, calculate the pension expense and the pension liability. (12 marks)

QUESTION TWO (20 MARKS)

Jumbo Private Limited has been in business for many years making fitted furniture and chairs. During the year 2021, substantial losses were incurred on the manufacture of chairs and the directors decided to concentrate on the fitted furniture side of the business which was expected to generate a profit of at least Sh. 22,000,000 per annum before interest charges and taxation. A capital reduction scheme was suggested as follows:

- i) New ordinary shares of Sh. 50 cents nominal value to be created.
- ii) The Sh. 1 ordinary shares to be written off and the shareholders be offered one new ordinary share for every six old shares held.
- iii) The Sh.1, 6% redeemable preference shares to be cancelled and the holders to be offered one new ordinary share and Sh.1 of a new 8% debenture for every three existing preference shares.
- iv) Every existing 11 ½ % debenture to be exchanged for a new debenture yielding 8% and in addition existing debenture holders to be offered one new ordinary share for every Sh. 4 of the old debenture held.
- v) Existing reserves to be written off.
- vi) Goodwill to be written off.

- vii) Any remaining balance of write off necessary to be achieved by writing down plant and equipment.
- viii) Existing ordinary shareholders to be invited to subscribe for two fully paid new ordinary shares at par for every three old shares held.

The statement of financial position of Jumbo Private Limited immediately prior to the capital reduction was as follows:

	Sh. “000”	Sh. “000”
Non – Current Assets		
Goodwill		50,000
Freehold land buildings at cost		95,000
Plant & equipment at cost		<u>185,500</u>
		330,500
Current Assets		
Inventory	25,000	
Accounts receivables	<u>50,000</u>	<u>75,000</u>
		<u>405,500</u>
Capital & Liabilities		
<u>Equity and Reserves</u>		
Sh. 1 Ordinary shares fully paid		90,000
6% Sh. 1 Preference redeemable shares fully paid		150,000
Share premium account		25,000
Profit & Loss account		<u>(38,850)</u>
		226,150
Non – Current Liabilities		
11 ½ % debentures: Secured on the freehold		100,000
Land and Buildings		
Current Liabilities		
Accounts payable	63,500	
Bank Overdraft	<u>15,850</u>	<u>79,350</u>
		<u>405,500</u>

On liquidation, the freehold land and buildings were expected to generate Sh. 120 million, plant & equipment Sh. 40 million, Inventory Sh. 15 million and Accounts receivable Sh. 45 million. Goodwill had no value. There were no termination costs associated with the cessation of the manufacture of chairs.

Required: Assuming that the necessary approval was obtained and that the share issue was successful, prepare;

- Capital Reduction Account (12 marks)
- Statement of financial position of the company immediately after the capital reconstruction scheme was executed. (8 marks)

QUESTION THREE (20 MARKS)

- a) Meza Limited purchased 80% of the Ordinary share capital of Kijiko Limited on 1 February 2021 for Sh. 440 million and 50% of the ordinary share capital of Sahani Ltd on 1 May 2020 for Sh. 112 million. Profits in all companies are deemed to accrue evenly over the year. The draft income statements for the three companies are shown below.

Profit & Loss Account for the year ended 30 April 2021

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

Additional Information:

- Meza Ltd has not yet accounted for dividends receivable from either Kijiko Ltd or Sahani Ltd.
- Meza Ltd and Kabati Ltd have a joint control in Sahani Ltd.

Required:

Group Income Statement using the proportionate method. (16 marks)

- b) Explain the following terms as used in accounting.

- Operating activities (1 mark)
- Investing activities (1 mark)
- Financing activities (1 mark)
- Subsidiary company (1 mark)

QUESTION FOUR (20 MARKS)

The following trial balance was extracted from the books of ABC Retirement Benefits Scheme for the year ended 30 September, 2020.

	Sh “000”	Sh “000”
Accumulated fund – 1 October 2019		461,560
Accrued expenses		240
General administrative expenses	2,840	
Cash & Demand deposits	23,460	
Change in market value of investments	22,640	
Commutations & Lump sum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer’s normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out to other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Government Securities	263,605	
Members’ normal contributions		18,240
Members’ additional voluntary contributions		4,560
Pensions	7,640	
Equity investments – quoted	87,835	
Unpaid benefits		320
Equity investments – unquoted	19,990	
	<u>571,950</u>	<u>571,950</u>

Required:

- Statement of changes in net assets as at 30 September, 2020. (10 marks)
- Statement of net assets as at 30 September, 2020. (10 marks)

QUESTION FIVE (20 MARKS)

Mijengo Construction Limited carried out work on four construction contracts during the financial year ended 30 April 2022. The details are set out as below:

	AO1 Sh. “million”	BO2 Sh. “million”	CO3 Sh. “million”	DO4 Sh. “million”
Contract Price	780	1,200	1,020	948
Costs to date	180	480	963.6	33.6
Estimated total cost	720	768	1,069.2	840
Payment on account	156	780	918	24
Revenue recognized in previous periods	78	180	504	-
Costs recognised in previous periods	60	72	480	-

Administrative expenses	1.5	15	2.5	-
Date of commencement	1 May 2020	1 Feb 2020	1 March 2020	1 March 2022

Additional information:

The company does not recognize profits until the contract is at least 5% complete.

The company's policy is to calculate the percentage of completion on cost basis.

The company prepares separate trading accounts for each contract.

Required:

- Trading account for each of the contracts (in a columnar format) showing clearly the revenue to be recognized for the year ended 30 April, 2022. (12 marks)
- Income statement extract for each contract (in a columnar format) for the year ended 30 April, 2022. (6 marks)
- Statement of financial position extract for Mijengo Contractors as at 30 April, 2022. (2 marks)