MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 302: ADVANCED FINANCIAL ACCOUNTING II

DATE: 24/9/2019 **TIME: 2.00-4.00M PM**

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 (30 MARKS)

a) Briefly explain five social responsibilities of a business enterprise (5 marks)

b) Distinguish between;

i) Internal reconstruction and external reconstruction
ii) Subsidiary and joint venture
(ii) Funded pension scheme and unfunded pension scheme (6 marks)

c) ABC Ltd contributes Shs. 30 million to a pension scheme while the regular cost is Shs.30 per annum. The deficit as at July 1st, 2017 was Shs. 600 million. The actuary recommended that the deficit be cleared within 4 years by paying Shs. 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, 2018 was 8 years.

Required:

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

d) Major Ltd acquired 80% of the ordinary share capital in Minor Ltd on 1 January 2016 when Minor Ltd retained earnings were Shs.30 m . The market value of Minor Ltd ordinary share as at that date was Shs 0.5 per share. Major Ltd and Minor Ltd statements of financial position as at 31 December 2016 were as follows:-

	Major Ltd	**Minor Ltd**
Assets	**Shs. '000'**	**Shs'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 (Shs 1 per share)	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

ii) Full goodwill method (6 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
Vlaue in luse	120	130	90

Required:

i) Determine the recoverable amount of each asset

ii) Determine the impairment loss if any. (6 marks)

QUESTION TWO (20 MARKS)

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

	Ndovu Ltd Shs ‘m’	Nyati Ltd Shs ‘m’
Non-Current Assets		
Property plant and equipment	223	270
Investment in Nyati 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 (Shs. 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, Nyati sold an item of property, plant and equipment to Ndovu Ltd realizing a profit on sale of Shs. 20 million. Ndovu 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, Ndovu Ltd sold goods to Nyati Ltd for Shs. 26 m. Ndovu Ltd sells goods at a mark-up of 30%. Nyati Ltd had sold a quarter of these goods by 31 August 2016.

iii. As at 31 August 2016 the trade receivable of Ndovu ltd included Shs 12 m due from Nyati Ltd while the trade payables of Nyati Ltd included Shs 7 million due to Ndovu Ltd.

iv. Goodwill was impaired by 25% as at 31 August 2016

v. Ndovu Ltd and Nyati Ltd had declared dividends of Shs 15 million and Shs 10 million respectively before 31 August 2016 but had not adjusted for them.

vi. Goodwill attributable to non-controlling interest was valued at Shs. 9.4 million.

Required:

Consolidated statement of financial position as at 31 August 2016. (20 marks)

QUESTION THREE (20 MARKS)

Hasara Ltd which has been posting trading losses has decided to re-organize its capital on 31 October 2017, 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 (Shs 10 per value)		150,000
Ordinary share capital (shs 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	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 per value of the preference shares was to be reduced to Shs. 7.5 per share.

ii. The per value of the ordinary shares was to be reduced to Shs. 1.25 per share

iii. One Shs. 1.25 ordinary share was to be issued for each Shs 10 preferences dividend in arrears. The preference dividend had not been paid for the past three financial years (Financial year to 31 October 2017 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 Shs. 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 2017.

Required:

a) Capital reduction account as at 31 October 2017

b) Ordinary Share Capital account & Bank account

c) Statement of financial position as at 1 November 2017 after completion of all the transactions.

QUESTION FOUR (20 MARKS)

The consolidated financial statements for Baraka group for the year ended 30 September 2017 together with the comparative statement of financial position for the year ended 30 September 2016 are shown below.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMEBR 2017

	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

		2017		**2016**
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 (Shs. 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 Shs. 50 million.

ii. Intangible assets comprise

	2017	**2016**
	Sh ‘m’	Sh ‘m’
Goodwill	180	200
Othes	470	100
Total	650	300

Include in the amount above were tangible assets acquired during the year ended 30 September 2017 for Shs 500 million

iii. During the year ended 30 September 2017 the holding company acquired a new plant which cost Shs. 250 million. The company also revalued its buildings by Shs. 200 million.

iv. On Oct. 1, 2016 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 :

	2017	**2016**
	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:

Group cash flow statement for the year ended 30 September 2017 in conformity with IFRS 7.

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 2017.

	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 2016	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 2017

b) Prepare profit and loss A/C extracts for each contract for the year ended 31 March 2017.

c) Prepare balance sheet extracts as at 31 March 2017 (16 marks)