CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF MASTER OF BUSINESS MANAGEMENT

MBAD 813: ADVANCED FINANCIAL ACCOUNTING

STREAMS: MBAD **TIME: 3 HOURS**

DAY/DATE: WEDNESDAY 14/7/2021 **2.30 P.M. – 5.30 P.M.**

INSTRUCTIONS: Answer question ONE and any other THREE

QUESTION ONE

(a) Liquidation, also known as 'winding up' is the process in which a liquidator collects and sells the company's assets and distributes the proceeds among the creditors to pay off debts owed. Once the interest of creditors are met, the company is officially dissolved. Discuss the disadvantages of liquidating a business [10 marks]

The statements of financial position of Gold and Silver at 31 December 2001 were as follows:

	Gold Kshs.	Silver Kshs.
ASSETS		
Property, plant and equipment (including land)	82,300	108550
Investment in silver	46,000	-
Current assets:		
Inventory	23,200	10,000
Silver current account	20,000	
Bond interest receivable	175	
Other current assets	5,000	7,500
Total assets	176,675	126,050
Equity and liabilities		
Equity share capital	60,000	27,600
Preferred shares	10,000	20,000
Retained earnings	75,000	21,200
	145,000	68,800
Non-current liabilities – bonds	12,500	17,500
Current liabilities		
Gold current account		20,000
Bond interest payable	625	875
Other current liabilities	18870	18875
Total equity and liabilities	176,675	126,050

(i) 20% of the goodwill is to be written off as an impaired loss.
(ii) During the year Gold sold some of its inventory to silver for kshs.3,000 which represented cost plus a markup of 25%. Half of these goods are still in the inventory of silver at 31/12/2001
(iii) There is no depreciation of land
(iv) There has been no movement on share capital since the acquisition.
On method is to be used to compute the non-controlling interest

Required:
Prepare a consolidated statement of financial position as at 31 December 2001 [24 marks]
(c) Using illustration, explain how to eliminate intercompany dealings [6 marks]

QUESTION TWO
Mwanga and Sons ltd is a small manufacturing fir owed by members of the family. The following trial balance was extracted from the books of the company as at 31st March, 1993.

	Sh.	**Sh.**
Freehold property, at cost (land sh. 75,000)	125, 000	
Plant, at cost	130,000	
Motor vehicle, at cost		62,000
Depreciation – motor vehicle	53,000	
Fittings and fixtures		30,000
Depreciation fittings and fixtures	38,600	11,790
20,000 ordinary shares of sh 10 each authorized, issued and fully paid		200,000
Share premium		50,000
General reserve		120,000
Interim dividend paid	16,000	
Cash at bank and in hand	33,570	
Accounts receivable and payable	130,540	57,430
15% debentures		100,000
Discount received		3,640
Profit and loss account 1 April 1992		103,870
Purchases of raw materials	942,380	
Sales of finished goods		1,254,760
Inventories 1st April 1992:		
Raw materials	33,060	
Work in progress	57,660	
Finished goods	107,860	
Provision of doubtful debts		6,400
Bad debts	4,890	
Relates and insurance	9,430	
Wages	108,370	
Factory power	22,560	
Light and water	16,280	
Plant maintenance	10,970	
Salaries	90,00	
Returns of raw materials		3,240
Sales return	1,360	
Advertising	8,580	
Transport expenses	24,320	
Bank charges	3,040	

	36,160	
	2,003,630	**2,003,630**

Additional information:

- Depreciation is to be provided for the year using the reducing balance method and applying rates of 15% on plant, 25% on motor vehicle and 10% on fittings and fixtures
- Buildings is to be depreciated at the rate of 4% using the straight line method. (Assume the whole building is used for manufacturing purposes).
- Provision of doubtful debts s to be adjusted to a figure equal to 10% of accounts receivable
- Light and water, insurance and general expenses are to be apportioned in the ratio 4:1 between factory and administrative overheads

	Sh.
Electricity and water accrued was	860
Insurance prepaid was	270
Rates prepaid were	780
Inventories were valued at:	
Raw materials	139,630
Work in progress	82,450
Finished goods	124,320

- Debenture interest has not yet been paid
- The directors require provision of a final dividend which will bring the dividend for the year up o sh 2 per share

Required:

Prepare in vertical form a manufacturing, trading and profit and loss account for the year ended 31st March, 1993 and a balance sheet as at that date. [20 marks]

QUESITON THREE

(a) Jaipur investments ltd holds 1,000, 15% debentures of kshs. 100 each in Udaipur industries ltd as on 1st April 1999, at a cost of kshs. 1,050,000. Interest is payable on 30th June and 31st December every year. On 1st 199, 500 debentures are purchased cum- interest at kshs. 53,5000. On 1st November 1999, 600 debentures are sold ex-interest at kshs. 57, 300. On 30th November 1999, 400 debentures are purchased ex-interest at kshs. 38,400. On 31st December 1999, 400 debentures are sold cum-interest for kshs. 55,000

Prepare investment account valuing holdings on 31st March 2000 at cost (applying F.I.F.O method) [14 marks]

(b) Explain in detail the main reasons behind inflation accounting [6 marks]

QUESTION FOUR
Sansora ltd a corporation owns 100% of the outstanding common stock of Franco ltd, a French company. Franco's financial statements for the year ended 31/12/2018 are presented below:

Franc, ltd		Franc, ltd	
Balance sheet		Income statement for period 31/12/2018	
Year ended 31/12/2018			
Assets	French Francs	Dales revenues	(700,000)
Cash	262,500		
Accounts receivable	350,000	Cost of sales	262,500
Inventory	787,500	Gross margin on sales	(437,500)
Property, plant and equipment	2,100,000	General and administrative expenses	175,000
Total assets liabilities and equity	3,500,000	Net income	(262,500)
Accounts payables	(175,000)		
Notes payables	(875,000)		
Common stock paid in capital in excess of par	(700,000)		
Paid in capital in excess of par	(525,000)		
Retained earnings (12/31/x1)	(1,225,000)		
Total liabilities and equity	(3,500,000)		

Additional information:
Exchange rate information for 19x1:

1/1/x1	IFF = Kshs. 10
7/1/x1	IFF = Kshs. 9
12/31/x1	IFF = Kshs. 7
Weighted Average for year	IFF = Kshs. 8

Franco's translated 01/01/2018 retained earnings was kshs. 2,040,000
The exchange rate in effect when Franco was acquired was IFF = Kshs 9.5

Required:

(a) State whether Franco's financial statements should be translated or remeasured and explain the rationale for your response. [2 marks]
(b) Present Franco's 31/12/2018 financial statements in Kshs providing schedules detailing the derivation of all computed numbers. [18 marks]

QUESTION FIVE

(a) Inflation accounting is used during times of increasing or plummeting prices in certain areas of the world, usually with respect to multinational corporations and their financial reporting. Discuss the draw backs and benefits of inflation accounting. [10 marks]

(b) Explain how realized and unrealized gains or losses from currency transactions differ depending on whether or not the transaction has been completed by the end of the accounting period. [10 marks]
