

# CHUKA UNIVERSITY

## THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE (ODEL)

### BCOM 313: ADVANCED FINANCIAL ACCOUNTING II

STREAM: B.COM Y3S2 (ODEL)

TIME: 2 HOURS

#### INSTRUCTIONS:

Answer Q1 and any other two Questions  
Do not write anything on the question paper

#### QUESTION ONE

(a) Explain the meaning of the following terms as used in the context of group accounts

- (i) Subsidiary company (2mks)
- (ii) Associate company (2mks)
- (iii) Minority Interest(3mks)
- (iv) Pre-acquisition reserves (3mks)

(b) The following balance sheets relate to Warm Ltd and Cold Ltd as at 31 December 2012.

	Warm Ltd		Cold Ltd	
Non Current assets	Ksh	KSh	KSh	KSh
Tangible				
Land		200,000.00		150,000.0
				0
Buildings		250,000.00		180,000.0
				0
Plant		<u>180,000.00</u>		<u>150,000.0</u>
				<u>0</u>
		630,000.00		480,000.0
				0
Investment in Cold Ltd		200,000.00		
<b>Current assets</b>				
Inventory	160,000.00		140,000.00	
Accounts receivables	180,000.00		150,000.00	
Cash at bank	<u>125,000.00</u>	<u>465,000.00</u>		<u>290,000.0</u>
				<u>0</u>
<b>TOTAL ASSETS</b>		<u>1,295,000.00</u>		<u>770,000.0</u>
		=====		0
				=====

				==
Ordinary Shares of Ksh1 each				
Capital Reserves		300,000.00		200,000.00
				0
Retained profits		200,000.00		140,000.00
				0
		<u>190,000.00</u>		<u>150,000.00</u>
				<u>0</u>
		690,000.00		490,000.00
				0
<b>Non Current liabilities</b>				
10% Loan Stock		200,000.00		120,000.00
				0
 <b>Current Liabilities</b>				
Bank Overdraft			110,000.00	
Accounts payable	180,000.00		120,000.00	
Proposed dividends	<u>125,000.00</u>	<u>305,000.00</u>	<u>120,000.00</u>	<u>360,000.00</u>
				<u>0</u>
		1,195,000.00		970,000.00
		=====		0
				=====
				=

Additional information

- 1 Warm Ltd acquired the investment in Cold Ltd on 1 Jan 2012 as follows:

	Ksh
60% Ordinary shares	190,000.00
Loan Stock	<u>110,000.00</u>
	300,000.00
	=====

- 2 On the date of acquisition, the capital reserves of Cold Ltd amounted to Ksh110,000 and retained profits amounted to Ksh105,000. On the same date the fair values of land and buildings were Ksh110,000 and Ksh120,000 respectively above the carrying amounts. Although no depreciation is provided on land, buildings are depreciated at 5% p.a on cost.

- 3 Included in the inventory of Warm Ltd are goods purchased from Cold Ltd at a selling price of Ksh115,000. Cold Ltd reported a profit of 50% on cost.
- 4 Included in the plant of Cold Ltd is plant bought from Warm Ltd on 01.01.2011 at a price of Ksh20,000. Warm Ltd reported a profit of a third on cost. The group provides depreciation on 30% on reducing balance.
- 5 Warm Ltd has not yet accounted for its share or proposed dividends in Cold Ltd.
- 6 Included in the accounts payable of Warm Ltd is an amount of Ksh125,000 due to Cold Ltd. This amount stood at Ksh128,000 in the books of Cold Ltd. The difference was due to the following items:
  - Cash sent by Warm Ltd to Cold Ltd of Ksh101,000.
  - Goods sent to Warm Ltd by Cold Ltd but not yet received by Warm Ltd. Selling price to Warm Ltd was Ksh101,200.

**Required:**

Prepare the consolidated Statement of Financial Statement of Warm Ltd and its subsidiary as at 31.12.2012. (20mks)

**QUESTION TWO**

- (a) Discuss four limitations of financial statements prepared on the basis of historical cost accounting. (4mks)
- (b) Nyayo limited was established on 1 January 2011. Its opening statement of financial position as at this date was as follows:

	Sh'000'
Land	6,000
Equipment	4,000
Inventory	<u>2,000</u>
Equity	<u>12,000</u>
	=====
	=

During the year ended 31December 2011, the company completed the following transactions.

- Purchased inventory at Sh.10,000,000
- Sold inventory for Sh.11,000,000 in cash. This inventory had a historical cost value of Sh.9,000,000.

Additional information:

1. Closing inventory on 31 December 2011 had a historical cost of Sh.3,000,000 and was bought when the retail price index (RPI) was 115 (average).
2. The equipment has an expected useful life of four years and a nil residue value.
3. The general price index during the year was as follows:

1 - Jan-11	100
30-Jun-11	110
31 -Dec-11	120

4. Assume that purchases and receipts occurred evenly throughout the year.
5. There were no debtors and creditors

Required:

(a) The current purchasing power (CPP) Income statement for the year ended 31 December 2011. (8mks)

(b) CPP Statement of financial position as at 31 December 2011. (8mks)

### QUESTION THREE

Baridi limited which has been posting trading losses, has decided to re-organise its capital. On 31<sup>st</sup> October 2011, a trial balance extracted from the books of the company after the income statement had been prepared showed the following.

	<b>Dr</b>	<b>Cr</b>
	Sh'000'	Sh.'000'
6% cumulative preference 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 expense	7,250	
Goodwill	55,000	
Trade payables		43,500
Trade receivables	31,200	
Bank overdraft		51,000
Leasehold property: Cost	80,000	
Accumulated amortization		30,000
Plant and machinery: Cost	210,000	
Accumulated depreciation		62,500

Inventory	<u>79,175</u>	_____
	577,000	<u>577,0</u>
	=====	00
		=====
		=====

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

1. The par value of the preference shares was to be reduced to Sh.7.5 per share.
2. The par value of the ordinary shares was to be reduced to Sh.1.25 per share.
3. One Sh.1.25 ordinary share was to be issued for each Sh.10 preference dividend in arrears. The preference dividends had not been paid for the last three financial years (Financial year to 31 October 2011 inclusive).
4. The balance on the share premium account was to be utilized for purposes of capital reduction.
5. The value of plant and machinery was to be written down to Sh.75 million.
6. The accumulated losses as well as good will were to be written off.
7. After the resolution authorizing the scheme of capital reduction had been passed, 50,000,000 ordinary shares were issued at par for cash, payable in full upon application. Assume all transactions were completed on 31 October 2011.

Required:

- (a) Capital reduction account as at 31 October 2011. (6mks)
- (b) Members' account as at 31<sup>st</sup> October 2011. (5mks)
- (c) Statement of Financial position as at 1 November 2011 after completion of all the transactions. (9mks)

#### QUESTION FOUR

- (a) IAS 1 prescribes the contents of published financial statements. Explain the five major reports that are included as part of the published financial statements. (10mks)
- (b) Discuss the main differences between Acquisition and Merger accounting methods in the context of business combinations. (6mks)
- (c) Outline the various sources of funds in preparation of cash flow statements. (4mks)