CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 313: ADVANCED FINANCIAL ACCOUNTING II

STREAMS: BCOM (ODEL) **TIME: 2 HOURS**

DAY/DATE: THURSDAY 05/12/2019 **8.30 AM – 10.30 AM**

INSTRUCTIONS:
Answer Question One and any other Two Questions

QUESTION ONE

(i) High ltd acquired 80% voting rights of medium ltd on 1st January 2010 when the retained earning of High ltd stood at shs. 70M.

The following information relates to High ltd and Medium ltd as at 31st December 2011

	High ltd Shs "000"	Medium ltd Shs. "000"
Non-current assets	650,500	450,500
Investment in medium ltd	300,500	-
Current Assets		
Inventory	200,500	170,500
Accounts receivable	270,500	150,000
Cash and cash equivalent	150,500	140,500
Total assets	1,572,500	912,000
Financed by:		
Ordinary share capital	560,000	160,000
Share premium	240,000	140,000
Revenue reserves	290,000	190,000
Non-current liabilities		
10% commercial paper	210,000	220,000
Current liabilities		
Accounts payable	212,500	152,000
Tax	60,000	50,000
Total liabilities	1,570,000	912,000

Additional information:

(i) High ltd sold the goods to medium ltd during the year for shs. 80M
High ltd marked up the goods at 20% on cost. Half of the goods remained in the closing inventory of high ltd.

(ii) Medium revalued its non-current assets upwards by sh. 3 million on 1st January, 2010

(iii) Goodwill is amortized at the rate of 25% p.a

Required:

(a) Cost of control account [5 marks]

(b) Goodwill account [5 marks]

(c) Group profit and loss account [5 marks]

(d) Non-controlling interest account [5 marks]

(e) Consolidated statement of financial position as at 31st December, 2011 [5 marks]

(ii) Distinguish between receivership and liquidation and highlight the circumstances that may lead to each. [5 marks]

QUESTION TWO

Mbaya Ltd has been suffering from adverse trading conditions largely due to the effect of obsolescence on its product. This has resulted in losses in each of the last five years. The company is unable to secure an extension of its present overdraft and creditors are pressing for payment.
The directors feel that a new product just developed by the company will make it profitable in the future but they are worried that a winding up order may be made before this can be achieved.
The following is the statement of financial position as at 31st October 2010.

	Book values			Present values
Fixed assets	Sh.	Sh.	Sh.	Sh.
Good will			600,000	-
Patents, trademarks etc			220,000	40,000
			820,000	
Freehold land and buildings		2,400,000		3,000,000
Plant and vehicles		1,000,000	3,400,000	720,000
			4,220,000	
Current assets				
Stock and debtors		1,280,000		1,160,000

Listed shares at cost		300,000		280,000
Creditors falling due within one year		1,580,000		
Trade	(2,360,000)			
Overdraft	(620,000)	(2,980,000)		
Net current liabilities			(1,400,000	
Total assets			2,820,000	
Share capital and reserves				
Called up share capital				
Sh. 20.7% cum preference shares				
Fully paid (dividends are 3 years in arrears)			1,000,000	1,000,000
Ordinary shares of sh. 20 each fully paid			4,000,000	4,000,000
Shares premium account			1,200,000	1,200,000
12% mortgage loan secured on freehold land			1,200,000	1,200,000
Profit and loss account			(4,580,000	(4,580,000)
			2,820,000	

The following additional information is available:

1. Scheme costs are estimated at sh. 96,000
2. Preference shares rank in priority to ordinary shares in the event of winding up
3. The bank had indicated that they would advance a loan of up to sh. 1,000,000 provided that the overdraft is cleared and a second mortgage on the freehold land is given.
4. To ensure speedy production of the new product, it would be necessary to expend, sh.400,000 on new plant and sh. 300,000 on increasing stocks.
5. The creditors figure of sh. 2,360,000 includes sh. 380,000 that would be preferential in a liquidation.

Required:

(a) Suggest a scheme of capital reduction and write up the capital reduction account. [12 marks]

(b) Outline suggestions as to the action that should be taken by the directors to improve the liquidity of the company. [8 marks]

QUESTION THREE

Customers ltd a general trading company, has produced the following draft accounts, prepared on the basis of historical costs, for the year ended 31 December 2013.

Income statement for the year ended 31 December 2013

	Sh '000'	Sh '000'
Sales		**16,500**
Cost of sales:		
Opening inventory	2,200	
Purchases	12,100	
	14,300	
Closing inventory	(2,500)	(11,800)
Gross profit		4,700
Depreciation	340	
Operating expenses	1,080	
Interest payable	180	(1,600)
Profit before tax		3,100
Tax		(1,200)
Profit after tax		1,900
Proposed dividends		(800)
Retained profits		1,100
Retained profits brought forward		5,700
Retained profits carried forward		6,800

Balance sheet as at 31 December

	2013	2012
Assets	**Sh '000'**	**Sh. '000'**
Non-current assets		
Land and buildings: Cost	7,000	7,000
Depreciation	(200)	(160)
Fixtures and fittings: Cost	3,000	3,000
Depreciation	(1,050)	(750)
Inventory	2,500	2,200
Accounts receivable	2,900	2,700
Cash	1,700	160
Total assets	15,850	14,150
Ordinary share capital	2,000	2,000
Retained profits	6,800	5,700
Shareholders funds	8,800	7,700
6% loan stock	3,000	3,000
Accounts payable	2,050	1,800
Tax payable	1,200	1,050
Dividends proposed	800	600
Total equity and liabilities	15,850	14,150

Additional information:

1. Land and buildings were acquired on 1 January 2009. The split of total cost is estimated as land, sh. 5 million and buildings, sh. 2 million. Buildings are depreciated at 5% per annum on a straight-line basis.
Estimated open market values are as follows:

	31 December 2013	**31 December 2012**
	Sh '000'	**Sh '000'**
Land	16,000	14,000
Buildings	6,300	6,000
	22,300	20,000

2. Fixtures and fittings were acquired on 30 June 2010 and are depreciated at 10% per annum on straight line basis. Suitable indices for current cost accounting are as follows:

30 June	122
31 December	153
Average for 2013	163
31 December 2013	173

Any depreciation adjustment should be based on average values.

3. Inventory, accounts receivalbes and accounts payable at each balance sheet date are estimated to have been in existence for an average of two months. Suitable indices are provided below:

31 October 2012	132
31 December 2012	134
Average for 2013	140
31 October 2013	144
31 December 2013	146

4. During the year ended 31 December 2013, the retail price index showed the following movements.

31 December 2012	124
Average for year 2013	131
31 December 2013	138

5. The company has produced supplementary current cost account since incorporation. At 31 December 2012, the balance on the current account cost reserve was sh. 14,864,000
Required:

(a) Current cost income statement for the year ended 31 December 2013. [10 marks]

(b) Current cost balance sheet as at 31 December 2013. [10 marks]

QUESTION FOUR

Pale Ltd manufactures and sells a wide range of food products for both wholesale and retail outlets. Its authorized ordinary share capital is 5 million shares of sh. 100 par value.
The company has extracted to the following trail balance as at 31 October 2004

	Sh '000'	**Sh '000'**
Ordinary share capital: issued and fully paid		300,000
Retained earnings		131,000
10% debentures (secured on buildings)		50,000
8% debentures (secured on a floating charge)		50,000
Freehold buildings: Cost	150,000	
Accumulated depreciation		15,000
Plant and machinery: Cost	220,000	
Depreciation		40,000
Additions – plant and machinery	40,000	
Motor vehicles: Cost	25,000	
Accumulated depreciation		10,000
Land	100,000	
Profit for the year		285,820
Trade and other payables		31,400
Trade and other receivables	101,600	
Inventories	163,000	
Balance at Faida Bank		47,000
Directors remuneration	52,000	
Balance at Faulu Bank	3,800	
Investment (market value: sh. 35 million)	49,620	
Interest received	32,000	
Interim dividends paid		2,100
Tax paid	21,000	
Dividend received	5,700	
		1,400
	963,720	963,720

Additional information:

1. Trading profit has been derived as follows

	Sh '000'	**Sh '000'**
Sales		1,432,000
Cost of sales	927,420	
Distribution costs	82,670	
Administrative expenses	136,090	(1,146,180)
		285,820

2. The 10% debentures are redeemable at par in ten equal annual installments commencing 1 November 2004, while the 8% debentures are due on 31 July2005.
3. The corporate tax at 30% on the adjusted profit for the year has been computed at sh. 53 million.
4. During the year, an item of plant which cost sh. 20 million on 20 September 2000 was disposed off for sh. 5 million. The disposal proceeds have netted off against the amount incurred in acquiring new plant and machinery.
5. Depreciation on property, plant and equipment is to be provided on cost and allocated as follows:

	Rate	**Basis of allocation**
Freehold buildings	2 ½% per annum	Administrative expenses
Plant and machinery	15% per annum	Cost of sales
Motor vehicles	20% per annum	Distribution costs

A full year's depreciation is charged in the year of acquisition but none in the year of disposal.

6. Inventories comprise:

	Sh. '000'
Raw materials	50,900
Work-in-progress	24,875
Finished goods	87,225

7. Employees costs included in relevant functional expenses are:

	Sh. '000'
Salaries and wages	478,770
Social security costs	67,500
Pension costs	42,000

Directors fees amounting to sh. 3 million have not been provided for.

8. The directors propose to pay a final dividend of sh. 8 per share

Required:

(a) Income statement for the year ended 31 October 2004 [9 marks]

(b) Statement of financial position as at 31 October 2004. Include relevant notes, using only the information provided, to ensure that the financial statements are in conformity with international Financial Reporting Standards. [11 marks]

Note: Do not prepare a statement of changes in equity.
