

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATIONS**

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 313: ADVANCED FINANCIAL ACCOUNTING I

STREAMS:

TIME: 2 HOURS

DAY/DATE: TUESDAY 24/07/2018

11.30 A.M – 1.30 P.M

INSTRUCTION:

1. (a) Explain any four importance of business combinations. [8marks]

(b) The following information relates to ABC and D as at 31/12/2016.

	A ksh 000'	B ksh 000'	C ksh 000'	D ksh 000'
Non- current assets	800	600	500	400
Investment in B ltd by Altd	250			
Investment in C ltd by Bltd		200		
Investment in D ltd by A ltd	150			
Current assets				
stock	150	120	100	80
Debtors	120	80	60	40
Cash	30	50	40	30
	1500	1050	700	550
	=====	=====	=====	=====
Financed by:				
Ordinary share capital	500	100	100	100
Share premium	200	100	100	50
Retained earnings	350	300	250	200
15% loan	200	300	100	100
Current liabilities				
Creditors	180	200	80	70
Taxation	<u>70</u>	<u>50</u>	<u>20</u>	<u>80</u>
	1500	1050	700	550
	=====	=====	=====	=====

Additional information

- (i) A ltd acquired 80% of B when retained earnings of B ltd stood at 75,000 on 1st Jan 2014.
- (ii) A ltd also acquired 40% of D ltd when retained earnings of D ltd stood at ksh 100,000
- (iii) B ltd acquired 75% of C ltd on 1st Jan 2015 when retained earnings of C ltd stood at ksh 25,000.
- (iv) Good will is to be amortized over a period of 4 years.

Required :

Consolidated statement of financial position as at 31 December 2016. [12marks]

(c) Explain five circumstances under which companies can be exempted from preparing consolidated statement of financial position. [10marks]

2. (a) Explain the circumstances under which a company can be liquidated. [8marks]

(b) Kimemia stationers has been financially crippled for the past few years and one of its creditors has petitioned to the court for the firm to be wound up to that effect. You have been appointed a liquidator at a cost of ksh 200,000 and the following information was availed.

Statement of financial position as at 31st December, 2015.

	Ksh '000'	Ksh '000'
Non current assets		
Land & buildings		1000
Furniture & equipment		480
Motor vehicles		90
Good will		60
Current assets		
Inventories	239	
Trade receivables	<u>1000</u>	<u>1239</u>
		2869
		=====
Equity & liabilities		
Capital & reserves (ksh 10 par value)		485.5
9% cumulative pref share (ksh 10 par		300.5
Revaluation reserves		455
Revenue reserves		(520.5)
Owners equity		690.5
Non current liabilities		

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Deferred advertising	20,000	(213,000)
Current liabilities		
Bank overdraft	39,000	
Creditors	50,000	
Debenture interest payable	4,500	
Accruals	10,000	
Director's loan	20,000	<u>123,500</u>
		233,000
		=====
Financed by:		
6% cum pref share @ ksh 10		80,000
15M ordinary shares @ ksh 10		150,000
Revenue reserves : P& L		-82,000
Non –current liabilities 6%		<u>75,000</u>
debentures loan		
		233, 000
		=====

Additional information

The court approved the scheme of reorganization submitted by the major holders and agreed upon by other interested parties to take effect on 1st July 2016 as follows.

- (i) The preference shares to be written down to ksh 7.5 and ordinary shares to ksh 2 each.
- (ii) The rate of dividends in preference shares be increased to 10%
- (iii) The debenture holders to have their interest paid in cash and to take over free hold property whose book value is ksh 20 M and is valued at ksh 24M in part payment of their holding and also to provide additional capital of ksh 26M secured by the floating charge over the company's assets at an interest rate of 12% p.a.
- (iv) Patents goodwill and deferred advertising to be written off ksh 15M to be written off on stock ksh 11.7M to be provided for bad debts and the remaining free hold property to be valued at 77.5M.
- (v) Investment to be realized. The directors to accept settlement of their loans 90% thereof via an allotment of ordinary shares at par and 5% in cash. The balance to be written off.
- (vi) The trade creditors to be paid ksh. 0.1 for every shilling and obtain an extension of a credit period.
- (vii) The bank sanctioned an overdraft limit of ksh 10 M to provide working capital.
- (viii) There are capital commitments amounting to ksh 75M which are to be cancelled on payment of $3 \frac{1}{3}$ of the contract price as penalty.
- (ix) The authorized capital was restored to its original amount.

Required :

Capital reduction account. [16marks]

4. (a) Explain the limitations of historical cost accounting over current purchasing power method. [10marks]

(b) Explain any five features of inflation accounting. [10marks]
