

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 313: ADVANCED FINANCIAL ACCOUNTING II

STREAMS: BCOM Y3S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 14/04/2020

2.30 PM – 4.30 PM

INSTRUCTIONS:

Answer Question One and any other Two Questions

QUESTION ONE

BY Ltd has been experiencing dwindling sales in its business operations due to competition from other agents dealing telecommunication equipment. On 1 January 2019, BY Ltd. Decided to diversify its operations to the information technology (IT) industry by acquiring LR ltd, a company dealing in the manufacture of IT equipment and software design.

The summarized financial statements of BY Ltd and LR Ltd. Were as follows:

Statement of comprehensive income for the year ended 30 September 2019

	BY Ltd	LR Ltd
	Sh '000'	Sh '000'
Revenue	60,000	24,000
Cost of sales	(42,000)	(20,000)
Gross profit	18,000	4,000
Other income: Interest received	75	
Dividend received	400	-
	18,475	-
Expenses:		
Distribution costs	(3,500)	(100)
Administrative expenses	(2,500)	(100)

Finance costs		(200)
Profit before tax	<u>12,475</u>	3,600
Income tax expense	(3000)	(600)
Profit after tax	<u>9,475</u>	<u>3,000</u>

Statement of financial position as at 30th September 2019

	BY Ltd Sh '000'	LR Ltd Sh '000'
Non – current assts:		
Property, plant and equipment	19,320	8,000
Investments	11,280	-
	<u>33,800</u>	<u>8,000</u>
Current assets:		
Inventories	5,000	3,000
Accounts receivable	4,200	3,400
Cash at bank	<u>5,800</u>	<u>1,600</u>
	<u>15,000</u>	<u>8,000</u>
Total assets	<u>45,600</u>	<u>16,000</u>
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh. 10 each	10,000	2,000
Retained earnings	25,600	8,400
	35,600	10,400
Non-current liability:		
10% debentures	-	2,000
Current liabilities:		
Accounts payable	7,500	3,200
Current assets	<u>2,500</u>	<u>400</u>
	<u>10,000</u>	<u>3,600</u>
Total equity and liabilities	<u>45,600</u>	<u>16,000</u>

Additional information:

1. BY Ltd acquired 80% of the ordinary share capital of LR ltd for sh. 10, 280,000 and also acquired half of the 10% debentures in the company.
2. The fair value of the assets of LR Ltd, at the date of acquisition were the same as their book values except for plant whose fair value more by sh. 3.2 million. As at 1 January 2012, the plant had a remaining useful life of four years. LR ltd. Depreciates plant on straight line basis on cost.
3. During the post-acquisition period, BY Ltd sold goods to LR Ltd for sh. 12 million. These goods had cost BY Ltd. Sh. 9 million. Subsequently, LR Ltd sold some of the goods purchased from BY Ltd at sh. 10 million for sh. 15 million.
4. On 30 June 2012, BY Ltd and LR Ltd paid dividends of sh 1,000,000 and sh. 500,000 respectively.

5. Included in the accounts receivable and payable is sh. 750,000 being the amount LR Ltd owned BY Ltd.
6. Goodwill is considered to be impaired by 25% as at September 2019. Goodwill is classified as an administrative expense by the group companies.

Required:

- (a) Group statement of comprehensive income for the year ended 30 September 2019. [10 marks]
- (b) Group statement of financial position as at 30 September 2019. [10 marks]
- (c) Explain the circumstances under which a group may be exempted from preparing consolidated financial statements. [10 marks]

QUESTION TWO

- (a) Describe the essence of group formation. [5 marks]
- (b) From the data given below calculate the gearing adjustment required under CCA method. [15 marks]

Current cost	Opening Ksh.	Closing Ksh.
Convertible Debentures	1,200,000	1,400,000
Bank overdraft	800,000	1,000,000
Cash	210,000	220,000
Paid up share capital	1,700,000	2,200,000
Reserves		
COSA	200,000	
MWCA	150,000	
Depreciation	<u>50,000</u>	
	<u>400,000</u>	

QUESTION THREE

The following is the summarized balance sheet of Tabu Ltd at 30 June 2002

	Sh '000'	Sh '000'	Sh '000'
Non-current assets:			
Tangible Freehold property			85,000
Plant			<u>10,000</u>
			95,000

Intangible: patents		10,500	
Goodwill		<u>28,000</u>	<u>38,500</u>
			133,500
Current assets			
Stock		85,000	
Debtors		97,000	
Investments (market value sh. 25 million)		11,000	
Deferred advertising		<u>20,000</u>	
		213,000	
Current liabilities			
Bank overdraft	39,000		
Creditors	50,000		
Debenture interest payable	4,500		
Accruals	10,000		
Directors loans	<u>20,000</u>	<u>(123,500)</u>	<u>89,500</u>
			<u>223,000</u>
Financed by:			
Share capital:			
6% 8 million cumulative preference shares of sh. 10 each			80,000
15 million ordinary shares of sh. 10 each			<u>150,000</u>
			230,000
Revenue reserves:			
Profit and loss account			
Shareholders account			<u>(82,000)</u>
			148,000
Non-current liabilities:			
6% debentures			<u>75,000</u>
			223,600

The court approved a scheme of reorganization submitted by the debenture holders and agreed upon by other interested parties to take effect on 1 July 2002 as follows:

1. The preference shares to be written down to sh. 7.50 each and the ordinary shares to sh. 2.00 each; each class of shares then to be consolidated into shares of sh. 10 each. The rate of dividend on preference shares to be increased to 10%
2. The preference dividends are four years in arrears of which three-quarters are to be waived and ordinary shares are to be allocated at par for the balance.
3. The debenture holders to have their interest paid in cash, to take freehold property (book value sh. 20 million) at a valuation of sh. 24 million in part repayment of their holding and to provide additional cash capital of sh 26 million secured by a floating charge on the company assets at an interest rate of sh. 12% per annum.
4. Patents, goodwill and deferred advertising to be written off, sh. 15 million to be written off stock, sh. 11.7 million to be provided for bad debts and the remaining freehold properties to be revalued at sh. 77.5 million
5. Investments to be realized

6. The directors to accept settlement of their loans as to 90% thereof by allotment of ordinary shares at par and as to 5% in cash, the balance of 5% being waived.
7. The trade creditors to be paid sh. 0.10 in every shilling to maintain and obtain an extension of the credit period
8. The bank has sanctioned an overdraft limit of sh. 10 million to provide working capital.
9. There are capital commitments amounting to sh. 75 million which are to be canceled on repayment of 3 1/3% of the contract price as a penalty.'
10. The authorized capital was restored to its original amount.

Required:

- (a) The capital reduction account to record the scheme of capital re-organization. [8

marks]

- (b) The statement of financial position of Tabu Limited as at 1 July 2002 immediately after affecting the scheme. [12 marks]

QUESTION FOUR

- (a) Historical cost Accounting as it applies in accounting for price level changes has certain limitations. Discuss. [10 marks]
 - (b) Discuss the circumstances under which a company can be wound up. [10 marks]
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