MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF COMMERCE

COURSE CODE: BCM 3205
COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING I

DATE: 24/04/2019 **TIME: 1100 – 1300 HRS**

INSTRUCTIONS TO CANDIDATES

- Answer Question **ONE** and any other **THREE** questions
- Do NOT write on this Question paper
- ALL EXAMINANTIONS RULES APPLY

This paper consists of 8 printed pages. Please turn over.

QUESTION ONE

a) Consolidation of financial statements is a requirement by the companies act in Kenya. Discuss the scenarios where companies may be exempted from the above requirement.

(5 Marks)

b) The adoption of International Financial Reporting Standards (IFRS) results to significant benefits accruing to the country adopting the standards. Briefly highlight such benefits.

(5 Marks)

c) Malengo Investing Company, has produced the following draft accounts, prepared on the basis of historical costs, for the year ended 31 December 2018:

Income statement for the year ended 31 December 2018

	Sh. '000'	**Sh. '000'**
Sales		16,500.00
Cost of sales:		
Opening Inventory	2,200.00	
Purchases	12,100.00	
	14,300.00	
Closing inventory	(2,500.00)	(11,800.00)
Gross profit		4,700.00
Depreciation	340.00	
Operating expenses	1,080.00	
Interest payable	180.00	(1,600.00)

Profit before tax	3,100.00
Tax	(1,200.00)
Profit after tax	1,900.00
Proposed dividends	(800.00)
Retained profits	1,100.00
Retained profits brought forward	5,700.00
Retained profits carried forward	6,800.00

Balance sheet as at 31 December

	2018	**2017**
	Sh. '000'	**Sh. '000'**
Assets		
Non current assets		
Land and buildings: Cost	7,000.00	7,000.00
Depreciation	(200.00)	(160.00)
Fixtures and fittings: Cost	3,000.00	3,000.00
Depreciation	(1,050.00)	(750.00)
Inventory	2,500.00	2,200.00
Accounts receivable	2,900.00	2,700.00
Cash	1,700.00	160.00
Total assets	15,850.00	14,150.00
Ordinary share capital	2,000.00	2,000.00

Retained profits	6,800.00	5,700.00
Shareholders funds	8,800.00	7,700.00
6% loan stock	3,000.00	3,000.00
Accounts payable	2,050.00	1,800.00
Tax payable	1,200.00	1,050.00
Dividends proposed	800.00	600.00
Total equity and liabilities	15,850.00	14,150.00

Additional information:

i) Land and buildings were acquired on 1 January 2014. 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 2018 Sh. '000'	**31 December 2017 Sh. '000'**
Land	16,000	14,000
Buildings	6,300	6,000
	22,300	20,000

ii) Fixtures and fittings were acquired on 30 June 2015 and are depreciated at 10% per annum on straight line basis. Suitable indices for current cost accounting are as follows:

30 June 2015	122
31 December 2017	153
Average for 2018	163
31December 2018	173

Any depreciation adjustment should be based on average values.

iii) Inventory, accounts receivables 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 2017	132
31 December	134

2017	140
Average for 2018	144
31 October 2018	146
31 December 2018	

iv) During the year ended 31 December 2018, the retail price index showed the following movements:

31 December 2017	124
Average for year 2018	131
31 December 2018	138

v) The company has produced supplementary current cost account since incorporation. At 31 December 2017, 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 2018 **(8 Marks)**

b) Current cost statement of financial position as at 31 December 2018 **(7 Marks)**

QUESTION TWO

a) The following is the summarized statement of comprehensive incomes for Manga Coffee Ltd for the year ended 31 March 2019:

	Sh.	**Sh.**
Sales		7,581,000.00
Cost of sales		4,905,000.00
Gross profit		2,676,000.00
Less: Wages and salaries	870,000.00	
Interest on loan	200,000.00	
Depreciation	310,000.00	
General expenses	112,500.00	
		(1,492,500.00)
Profit before tax		1,183,500.00

Less corporation tax (at 30%)	(355,050.00)
Profit after tax	828,450.00
Dividends	450,000.00
Retained profit for the year	**378,450.00**

Required: Value added statement for the year ended 31 March 2019 (**7 Marks)**

b) Differentiate between the following as applicable in the consolidation process

i) Associate and an Investment **(4 Marks)**

ii) Control and Ownership **(4 Marks)**

QUESTION THREE

On 1 April 2018, Hawa Ltd acquired four million of the ordinary shares of Swala Ltd, paying sh. 4.50 per share. At the same time Hawa Ltd purchased sh. 500,000 of Swala Ltd's 10% redeemable preference shares. At the acquisition date, the retained earnings of S Ltd were shs. 400,000. The following are the draft statements of financial position of the two companies as at 31 March 2019:

	Hawa Ltd	**Swala Ltd**
Non-current assets	Sh. "000"	Sh. "000"
Land and buildings	22,000.00	12,000.00
Plant and equipment	20,450.00	10,220.00
Investments in S Ltd:		
Equity	18,000.00	-
Preference shares	500.00	-
	60,950.00	22,220.00
Current Assets:		
Inventories	9,850.00	6,590.00
Trade receivables	11,420.00	3,830.00
cash and bank	490.00	-
Total Assets	82,710.00	32,640.00
Equity:		
Ordinary shares (Sh. 1 each)	10,000.00	5,000.00
10% Preference shares	-	2,000.00
Retained earnings	51,840.00	14,580.00
	61,840.00	21,580.00

Non-current liabilities:		
10% Debentures - 2022	12,000.00	4,000.00
Current liabilities:		
Trade payables	6,400.00	4,510.00
Bank overdraft	-	570.00
Taxation	2,470.00	1,980.00
	8,870.00	7,060.00
Total Equity and liabilities	**82,710.00**	**32,640.00**

Extracts from the income statement of Swala Ltd before intra group adjustments for the year 31 March 2019 were as follows:

Profit before tax	5,400,000.00	
Taxation expenses		(1,600,000.00)
	3,800,000.00	

Additional information:

1) Included in the land and buildings of Swala ltd is a large piece of development land at a cost of sh. 5 million. The fair value of the land on the date Swala Ltd was acquired was sh. 7 million and by 31 March 2019, this value had risen to sh. 8.5 million. The group's valuation policy for development land is that it should be carried at fair value and not depreciated.
2) On the date of acquisition of Swala Ltd the company's plant and equipment included plant that had a fair value of sh. 4 million in excess of it carrying value. This plant had a remaining useful life of 5 years. The group calculates depreciation on a straight-line basis. The fair value of the other net assets of Swala Ltd approximated their carrying values.
3) During the year, Swala Ltd sold goods to Hawa Ltd for Sh. 1.8 million. Swala Ltd adds a 20% mark up on cost to all its sales. Goods with a transfer price of sh. 450,000 were included in inventory of H Ltd as at 31 March 2019. The balance of the current accounts of Hawa Ltd and Swala Ltd was sh. 240,000 on 31 March 2019.
4) An impairment test carried out on 31 March 2019 showed that the consolidated goodwill was impaired by sh. 1,488,000.
5) Swala Ltd had paid its preference dividend in full and ordinary dividends of sh. 500,000.

Required: Consolidated Statement of Financial Position of Hawa Ltd and its subsidiary Swala Ltd as at 31 March 2019.

(15 Marks)

QUESTION FOUR

The figures that relate to the Profit and Loss Accounts and to the Statement of Charges in Equity for Addis Limited and its subsidiaries Bujumbura Limited and Chalbi Limited for the year ended 30 November 2018 are as follows:

	Addis	Bujumbura	Chalbi

	Ltd. Sh. '000'	Ltd. Sh. '000'	Ltd. Sh. '000'
Sales revenue	84,000.00	66,000.00	48,000.00
Inventory 1 December 2017	(3,824.00)	(3,757.00)	(2,822.00)
Inventory 30 November 2018	4,286.00	4,124.00	2,452.00
Purchases	(50,862.00)	(49,862.00)	(38,430.00)
Distribution cost	(13,440.00)	(8,050.00)	(9,600.00)
Administrative expenses	(8,400.00)	(3,950.00)	(6,400.00)
Taxation: Current	(2,140.00)	(1,050.00)	-
Deferred	(1,420.00)	(300.00)	2,040.00
Dividends			
Preference: Interim paid 31 May 2018	-	(450.00)	-
Final paid 30 November 2018	-	(450.00)	-
Ordinary: Interim paid 31 August 2018	(3,000.00)	(500.00)	-
Final proposed 30 Nov. 2018	(4,500.00)	(750.00)	(150.00)
Dividends received	580.00	-	-
Retained profit: 1 December 2017	18,300.00	12,600.00	9,200.00
Issued and paid-up share capital:			
Preference share capital	Nil	9,000.00	Nil
Ordinary share capital	15,000.00	10,000.00	3,.000

Additional information:

1. Addis Limited acquired 180,000 10% preference shares of Sh.20 each and 800,000 ordinary shares of Sh.10 each on 1 December 2014 when the balance on the profit and loss account of Bujumbura Limited was Sh.8,100,000. Goodwill of Sh.2,500,000 had arisen on the purchase of these shares. Addis Limited is amortizing this goodwill over 5 years on the straight-line basis.
2. Addis Limited acquired 180,000 ordinary shares of Sh.10 each in Chalbi Limited on 1 March 2018: the purchase price of these shares was to be fixed once the results for the year ended 30 November 2018 to maintain its trustee status.

3. Bujumbura Limited makes sales to Addis Limited at its nominal selling price. In the year ended 30 November 2018, Bujumbura Limited's sales to Addis Limited amounted to Sh.9,300,000. Stock purchased from Bujumbura Limited and held by Addis Limited at cost amounted to Sh.540,000 and Sh.720,000 on 30 November 2017 and 30 November 2018 respectively.
4. Addis Limited sold an item of plant to Bujumbura Limited on 1 December 2016 for Sh.2,400,000. A Limited had marked up its cost by 20%. B Limited is depreciating this item of plant to nil residual value on the straight-line basis over 10 years with the charge appearing as part of cost of sales.
5. There has been no intra-group trade between Chalbi Limited and the other two companies.
6. Group policy in relation to unrealised profit on intra-group sales is of assets is to eliminate the whole of the unrealised profit from the asset and from the company which made the profit on the sale of the asset adjusting the minority interest's share of this profit as appropriate. The amortization of goodwill is classified as an administrative expense and deemed to be a charge against the profit of the holding company.

Required: Consolidated Statement of Comprehensive Incomes for the year ended 30 November 2018

(15 Marks)

QUESTION FIVE

Ahero Horticultural Limited and Namba Flowers Limited are exporters of horticultural and tropical fruits. Both Companies are owned by small number of shareholders. These shareholders have decided to amalgamate the two companies with effect from January 2018, by means of a share exchange, all the shareholders in Namba, with the exception of the production director who owns 5% of the shares of the company (and who will retain his shareholding in Namba) have exchanged each of their Sb 20 shares in Namba for 2 Sh 10 share in Ahero. However the exchange of shares has not yet been accorded in the books of either company. Financial consultants had valued the shares in Namba at Sh. 40 each and those in Ahero at Sh. 17.50 each.

The trial balances of the two companies at 30 April 2018 were as follows:

	Ahero Hort. Ltd		**Namba Flowers Ltd**	
	Sh. '000'	**Sh. '000'**	**Sh. '000'**	**Sh. '000'**
Administrative expenses	36,940		30,900	

Cash at bank/Bank overdraft – Secured on land & building		3,350	5,750	
Creditors		19,100		8,550
Debtors	31,150		25,800	
Distribution expenses	55,410		46,350	
Dividends: interim paid	3,000		4,000	
Freehold land and buildings: cost/accumulated depreciation	21,250	8,500	18,900	7,560
Motor vehicles: cost/accumulated depreciation	6,600	3,300	5,200	2,600
Cost of sales	186,650		208,500	
Plant and machinery at Cost	36,000		40,000	
Accumulated depreciation - Plant and machinery		14,400		16,000
Deferred taxation		3,720		4,460
Profit and loss account		17,680		22,560
Sales		293,300		300,000
Share capital: Issued and fully paid shares of Sh. 10/Sh.20		30,000		40,000
Stock	12,100		12,000	
Taxation: Instalment tax paid	4,250		4,330	
	393,350	393,350	401,730	401,730

Additional information:

1. The sales and expenses of both companies occurred evenly over the year to 30 April 2018. The rates of gross profit for both companies are constant throughout the year.
2. The self-assessment tax returns have not yet been field, but will indicate corporation tax liabilities of Sh. 4,680,000 and Sh. 4,755,000 for Ahero and respectively. Of these two amounts. Sh. 390,000 and Sh. 480,000, respectively of the liabilities are included in the deferred tax balances brought forward included in the trial balances above.
3. The directors of Ahero, who comprise the three former directors of the company and three of the four directors of Namba have proposed that Ahero and Namba would pay final dividends of Sh. 8,500,000 and 5,000,000 respectively.

   Any goodwill that rises should be amortised on the straight line basis over 60 months and the amortization should be shown as a separate line item in the consolidated profit and loss account

Required: Using the pooling of interest method

a) The consolidated profit and loss account for the years ended 30th April 2018**(8 marks)**
b) The consolidated balance sheet as at 30 April 2018 **(7 Marks)**

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