



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 304 /EDB 311

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING I

DATE: 22ND APRIL 2024 TIME: 2.00 P.M TO 5.00 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

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MAIN EXAM

BBM 304/EDB 311 ADVANCED FINANCIAL ACCOUNTING I

STREAM BBM /BED (Arts)

Duration 3Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question one and any other two questions
- ii. All working must be shown
- iii. Do not write on the question paper

SECTION A

QUESTIONS ONE (30 MARKS)

- a) Explain THREE basis of exerting control by a Parent Company on a Subsidiary (6 marks)
- b) Distinguish between the following methods of accounting for Price –Level Changes;
i. Current Purchasing Power Technique (CPP) (2marks) ii .Historical Cost Accounting Technique (HCA) (2marks)
- c) The following balance sheets relate to H Ltd and S Ltd as at 31 December 2022.

	H Ltd		S Ltd	
	KES	KES	KES	KES
Non-Current assets				
Tangible				
Land		100,000.00		50,000.00
Buildings		150,000.00		80,000.00
Plant		80,000.00		50,000.00
		<u>330,000.00</u>		<u>180,000.00</u>
Investment in S Ltd		100,000.00		
Current assets				
Inventory	60,000.00		40,000.00	
Accounts receivables	80,000.00		50,000.00	
Cash at bank	25,000.00	165,000.00		90,000.00
TOTAL ASSETS		<u>595,000.00</u>		<u>270,000.00</u>
Ordinary Shares of £1 each		200,000.00		100,000.00
Capital Reserves		100,000.00		40,000.00
Retained profits		90,000.00		50,000.00
		<u>390,000.00</u>		<u>190,000.00</u>
Non Current liabilities				

10% Loan Stock		100,000.00		20,000.00
Current Liabilities				
Bank Overdraft	-		10,000.00	
Accounts payables	80,000.00		30,000.00	
Proposed dividends	25,000.00	105,000.00	20,000.00	60,000.00
		<u>595,000.00</u>		<u>270,000.00</u>

Additional information

H Ltd acquired the investment in S Ltd on 1 Jan 20X0 as follows:

	KES
60% Ordinary shares	90,000.00
Loan	
Stock	<u>10,000.00</u>
	<u>100,000.00</u>

On the date of acquisition the capital reserves of S Ltd amounted to KES 10,000 and retained profits amounted to KES 5,000. On the same date the fair values of land and buildings were KES 10,000 and 2 KES 0,000 respectively above the carrying amounts. Although no depreciation

is provided on land, buildings are depreciated at 5% p.a. on cost.

Included in the inventory of H Ltd are goods purchased from S Ltd at a selling price of 15,000 to S Ltd. S Ltd reported a profit of 50% on cost.

Included in the plant of S Ltd is plant bought from H Ltd on 01.01.20X1 at a price of KES 20,000. H Ltd reported a profit of a third on cost. The group provides depreciation on 30% on reducing balance.

H Ltd has not yet accounted for its share of proposed dividends in S Ltd.

Included in the accounts payable of H Ltd is an amount of KES 25,000 due to S Ltd. This amount stood at KES 28,000 in the books of S Ltd. The difference was due to the following items:

- Cash sent by H Ltd to S Ltd of KES 1,000.
- Goods sent to H Ltd by S Ltd but not yet received by H Ltd. Selling price to H Ltd was KES 1,200.
- Administration fees of KES 800 charged by H Ltd to S Ltd but not yet recorded by S Ltd.

Assume that goodwill on consolidation has been impaired by 40%.

Required:

Prepare the consolidated balance sheet of H Ltd and its subsidiary as at 31.12.2022. (20 marks)

QUESTION TWO (20 MARKS)

East Africa Cables Ltd was incorporated towards the end of 2002, but it did not start trading until 2003. Its historical cost statement of financial position at 1 January 2003 was as follows

Share capital, £1 shares	2,000
Loan (interest free)	8,000
	KES 10,000
Non-current assets, at cost	6,000
Inventory, at cost (4,000 units)	4,000
	KES 10,000

A summary of Shower Limited's bank account for 2003 is given below:

Jan 2003 Opening balance	nil
30 Jun 2003 Sales (8,000 units)	20,000
Less 29 Jun 2003 Purchase (6,000 units)	(9,000)
Sundry expenses	<u>(5,000)</u>
	14,000
31 Dec 2003 Closing balance KES	6,000

All the company's transactions are on a cash basis. The non-current assets are expected to last for five years and the company intends to depreciate its non-current assets on a straight-line basis. The non-current assets had a resale value of KES 2,000 at 31 December 2003.

Notes;

1 The closing inventory is 2,000 units and the inventory is sold on a first-in-first-out basis.

2 All prices remained constant from the date of incorporation to 1 January 2003, but thereafter, various relevant price indices moved as follows:

	General Price level	Inventory	Non-current assets
1 January 2003	100	100	100
June 2003	120	150	140
December 2003	240	255	200

Required:

Produce statements of financial position as at December 20X3

and statements of comprehensive incomes for the year ended on that date on the basis of: historical cost; and current purchasing power (general price level);

(16 marks)

QUESTION THREE (20 MARKS)

a) Following is the Balance Sheet of M Ltd. as at 31st March, 2021

Liabilities	Sh. 00	assets	
15,000, 10% Preference shares of sh.100 each	1,500	Goodwill	350
35,000 Equity shares of sh 100 each	3,500	Land and buildings	1,500
Securities Premium account	100	Plant and machinery	1,000
7% Debentures of sh 100 each	500	Inventory	500
Trade Payables	1,250	Trade receivables	1,500
Loan from Director	150	Cash at bank	100
		Profit and loss A/C	1,950
	7,000		7,000

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

- (i) Each Equity share to be reduced to Sh. 25.
- (ii) Each existing Preference share to be reduced to Sh.75 and then exchanged for 1 new 13% Preference share of Sh.50 each and 1 Equity share of Sh.25 each.
- (iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of Sh.25.
- (iv) The Debenture holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of Sh.50 each issued at par. One half (in value) of the debenture holders accepted Preference shares for their claims. The rest were paid cash.
- (v) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Inventory and Trade receivables by Sh. 400,000, Sh.100,000 and Sh.150,000 respectively. Increase the value of Land and Buildings to Sh. 1,800,000.
- (vi) 40,000 new Equity shares of Sh.25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.
- (vii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to Sh.15,000.

Required

Pass necessary Journal Entries to record the above transactions

(20 marks)

QUESTION FOUR (20 MARKS)

**Draft profit and loss accounts
as at December 2021**

	H Ltd. Sh. "000"	S Ltd.	A Ltd. Sh. "000"
Turnover	<u>600,000</u>	<u>400,000</u>	<u>350,000</u>
Profit before tax	200,000	180,000	100,000
Taxation	<u>(60,000)</u>	<u>(45,000)</u>	<u>(30,000)</u>
Profit after tax	140,000	135,000	70,000
Less proposed dividends:			-
Preference	-	(30,000)	
Ordinary	<u>(60,000)</u>	<u>(60,000)</u>	<u>(40,000)</u>
Retained profits	80,000	45,000	30,000
Balance brought forward	<u>40,000</u>	<u>60,000</u>	<u>50,000</u>
Balance carried forward	<u>120,000</u>	<u>105,000</u>	<u>80,000</u>

**Draft profit and loss accounts
as at December 2021**

	H Ltd. Sh. "000"	S Ltd.	A Ltd. Sh. "000"
Assets:			
Non-current assets	375,000	195,000	135,000
Current assets:			
Stocks	90,000	85,000	60,000
Debtors	80,000	65,000	40,000
Cash at bank	<u>75,000</u>	<u>50,000</u>	<u>45,000</u>
	<u>245,000</u>	<u>200,000</u>	<u>145,000</u>
Total assets	<u>620,000</u>	<u>395,000</u>	<u>280,000</u>
Equity and liabilities:			
Equity:			
Authorized and fully paid:			
3,000,000 ordinary shares of Sh. 100 par value	300,000		
1,000,000 ordinary shares of Sh. 100 par value		100,000	100,000
500,000 Preference shares of Sh. 100 par value		50,000	

Profit and loss account balance	<u>120,000</u>	<u>105,000</u>	<u>80,000</u>	On 1 January 2019, H Ltd., a manufacturer of clay products, made the following investments
	<u>420,000</u>	<u>255,000</u>	<u>180,000</u>	
Liabilities				
Current liabilities:				
Creditors	80,000	35,000	30,000	
Proposed dividends	60,000	60,000	40,000	
Taxation	<u>60,000</u>	<u>45,000</u>	<u>30,000</u>	
	<u>200,000</u>	<u>140,000</u>	<u>100,000</u>	
Total equity and liabilities	<u>620,000</u>	<u>395,000</u>	<u>280,000</u>	• Acquired 60% of the

ordinary shares of S Ltd. for Sh.80,000,000

- Acquired 40% of the preference shares of S Ltd. for Sh.25,000,000
- Acquired 30% of the ordinary shares of A Ltd. for Sh. 55,000,000

H Ltd. is represented in the board of directors of A Ltd. by two directors.

The draft accounts of H Ltd., S Ltd. and A Ltd. for the year ended 31 December