



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

CITY CAMPUS – EVENING

ABA 415: ADVANCED FINANCIAL ACCOUNTING II

Date: 25th July, 2017

Time: 5.30 - 8.30pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE
- Question ONE carries 25 marks the other questions carry 15 marks each.



QUESTION 1 (COMPULSORY)

a) STIMA Ltd manufactures electrical equipments. The following trial balance as at 31 March 2015 has been extracted from the books of the company:

	SH	SH
Ordinary shares of sh. 50 each		400,000
10% Redeemable Preference shares of sh1		200,000
Retained profits as at 1 April 2014		42,475
<hr/>		
Office block (Land sh 40,000)	170,000	
Plant and machinery	730,000	
Office equipment	110,000	
Motor vehicles	200,000	
Provision for depreciation –		
-Plant and Machinery		224,500
-Office equipment		24,500
- Motor vehicles		80,000
Accounts receivables/Payables	500,000	356,226
Provision for doubtful debts		1,000
Manufacturing wages	501,400	
Inventory as at 1 April 2014:		
– raw materials	70,000	
<hr/>		
- Work in progress	126,000	
- Finished goods	250,000	
Transport expenses	85,013	

Returns inwards	15,106	
Purchases of raw materials	518,600	
Sales		2,600,147
Bank balance		60,020
Directors salaries	60,114	
Maintenance of plant	30,102	
Rent	40,063	
Advertising	190,048	
Rates	50,171	
Insurance	20,116	
Office salaries	166,013	
Light and heat	46,027	
Factory power	30,014	
Bank interest	7,070	
Interim dividends on preference shares	10,000	
General administration expenses	<u>63,011</u>	<u> </u>
	<u>3,988,868</u>	<u>3,988,868</u>

Further information is as follows:

(1) Depreciation is to be provided as follows:

Plant and machinery	15% on cost. (Production expense)
Office equipment	10% on cost (administration expense)
Motor vehicles	25% on WDV (distribution cost)
New office blocks	2% on cost (Administration expense)

- (2) Prepayment of rates at 31 March 2015 was sh.3,140.
- (3) An insurance premium for public liability cover amounting to sh. 3,360 was paid for the year to 30 June 2015.
-
- (4) The amount owing for light and heat is sh1,214 and rent is sh2,321 as at 31 March 2015.
- (5) Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and office expenses.
- (6) The provision for doubtful debts is to be maintained at 1% of the accounts receivables.
- (7) The production director acts as a factory manager, his salary is sh 20,000. Office salaries include amounts paid to salesmen of sh 64,237.
-
- (8) The corporation tax of sh. 100,000 is to be provided,
- (9) During the year 1,500 electrical equipments were transferred from the factory to the warehouse. Only 100 equipments were in hand at the end of the year.
- (10) Inventory at cost as at 31 March 2015 was as follows:

Raw materials	Sh. 56,200
Work in progress	Sh. 47,190
Finished goods	Sh. 95,478

Required:

Prepare the published income statement for the year ended 31 March 2015 and a balance sheet as at the same date (SHOW THE WORKINGS) **(15 marks)**

- b) Discuss the types of the events after the balanced date and explain how they are considered **(10 Marks)**
-

QUESTION 2

Kisumu Limited was incorporated on 1 April, 2005 to take over as from 1 January, 2005 same year the existing business of Migosi Brothers. Under take-over agreement, all profits made from 1 January belong to the new company. The purchase consideration was 7 Million. The vendors received half of the consideration in cash on 1 July of the year together with interest at 10% p.a. For the other half of purchase consideration, the vendors were allocated 35,000 fully paid up shares of sh. 100 @ in the new company. The following balances appeared in the books of the company as on 31 Dec 2005;

	Sh.		Sh.
Goodwill	31,000	Sales	9,100,000
Interest to vendors	175,000	Opening stock	4,200,000
Preliminary expenses-post	80,000	Purchases	7,700,000
Furniture at cost	150,000	Books debts	950,000
Sundry creditors	650,000	Vehicles at cost	350,000
Cash in hand	120,000	Freehold land at cost	500,000
Bank overdraft	1,650,000	Buildings at cost	1,300,000
Fixed deposit received	350,000	Rates and taxes	70,000
Rent received	130,000	Miscellaneous exp	220,000
Repairs to buildings	30,000		
Directors fees -post	24,000		
Salaries and wages	480,000		

Additional information;

- Share capital 45,000 shares of sh. 100 @ fully paid (including vendors shares) sh. 4,500,000.
- Closing stock amounted to sh. 4,800,000
- Bad debts amounted to sh. 10,000 out of which sh. 5,000 related to book debts (pre-incorporation) taken over by the company have to be written off and a provision of Sh. 50,000 to be made for doubtful debts as on 31 Dec 2005.
- Depreciation is to be written off as follows: Buildings 5%, Furniture 10%, and Motor vehicles 20%.

Required:

- Prepare a Trading, Profit and Loss Account for the period January to December 2005 and compute profit/loss prior to incorporation.
- Assume: Turnover is evenly distributed.

(15 Marks)

QUESTION 3

The following balance sheets relate to BAROT Ltd and SAROT Ltd as at 31 December 2014.

		BAROT Ltd		SAROT Ltd	
		Sh.	Sh.	Sh.	Sh.
Non-Current assets					
Tangible	Land		100,000.00		50,000.00
	Building		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 Sarot 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 Sh.1 each		200,000.00		100,000.00
	Capital Reserves		100,000.00		40,000.00
	Retained profits		<u>90,000.00</u>		<u>50,000.00</u>
			390,000.00		190,000.00
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

- i) Barot Ltd acquired the investment in Sarot Ltd on 1 Jan 2012 as follows:

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

- ii) On the date of acquisition the capital reserves of Sarot Ltd amounted to Sh.10,000 and retained profits amounted to Sh.5,000. On the same date the fair values of Land and Buildings were Sh.10,000 and Sh.20,000 respectively above the carrying amounts. Although no depreciation is provided on land, buildings are depreciated at 5% p.a. on cost.
- iii) Included in the inventory of Barot Ltd are goods purchased from Sarot Ltd at a selling price of Sh.15,000 to Sarot Ltd. Sarot Ltd reported a profit of 50% on cost.
- iv) Included in the plant of Sarot Ltd is plant bought from Barot Ltd on 01.01.2013 at a price of Sh. 20,000. Barot Ltd reported a profit of a third on cost. The group provides depreciation on 30% on reducing balance
- v) Barot Ltd has not yet accounted for its share of proposed dividends in Sarot Ltd.
- vi) Included in the accounts payable of Barot Ltd is an amount of Sh. 25,000 due to Sarot Ltd. This amount stood at Sh. 28,000 in the books of Sarot Ltd. The difference was due to the following items:
- Cash sent by Barot Ltd to Sarot Ltd of Sh.1,000.
 - Goods sent to Barot Ltd by Sarot Ltd but not yet received by Barot Ltd. Selling price to Barot Ltd was Sh.1,200.
 - Administration fees of Sh. 800 charged by Barot Ltd to Sarot Ltd but not yet recorded by Sarot Ltd.
- vii) Assume that goodwill on consolidation has been impaired by 40%.

REQUIRED:

Prepare the consolidated balance sheet of BAROT Ltd and its subsidiary as at 31.12.2014. (Clearly show the workings) (15 marks)

QUESTION 4

- a) Explain the advantages of accounting standards (7 MARKS)
 b) Discuss briefly the powers of liquidator (8 MARKS)

QUESTION 5

Set out below are the draft balance sheets of H Ltd and its subsidiary S Ltd as of December 2012.

	H Ltd		S Ltd	
	Sh	Sh	Sh	Sh
Non-Current assets				
Tangible – PPE		50,000		40,000
Investment in S Ltd:				
OSC	12,000			
PSC	10,000			
Loan Stock	5,000	27,000		
		<u>77,000</u>		
Current assets				
Inventory	12,000		10,000	
Accounts receivables	8,000		4,000	
Cash at bank	3,000	23,000	2,000	16,000
TOTAL ASSETS		<u>100,000</u>		<u>100,000</u>
Share Capital				
OSC		50,000		
PSC		10,000		
Retained profits		20,000		
		<u>80,000</u>		
Non-Current Liabilities				
10% Loan Stock		10,000		
Current Liabilities				
Accounts Payable		10,000		
		<u>100,000</u>		<u>100,000</u>

Additional information:

H Ltd acquired 60 % of the Ordinary Share capital (OSC) of S Ltd when the retained profits of S Ltd amounted to Sh. 1,000, 40% of the Preference Share Capital (PSC) and part of the Loan Stock.

Required;

Prepare the consolidated balance sheet of H Ltd and its Subsidiary S Ltd as at 31 December 2012. (Clearly show the workings)

(15 Marks)

QUESTION 6

- a) The International Accounting Standards Board (IASB) is an autonomous body that develops and approves IFRSs. Explain why such a body is said to be necessary (7 Marks)
- b) Discuss the advantages of accounting standards (8 marks)