(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN/BUNGOMA/NAIROBI/WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS 2017/2018 ACADEMIC YEAR

FOURTH YEAR SEMESTER ONE EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 404

COURSE TITLE: COMPANY ACCOUNTS

DATE: Monday 4th February 2019 **TIME:** 12-2pm

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

SECTION A: COMPULSORY

QUESTION ONE(30 MARKS)

a) i) Briefly discuss the difference between Financial Reporting and Financial Statements. **(4 marks)**

ii) In the context of Financial Reporting, discuss four(4) Roles of the International Accounting Standards Board's (IASB)'s Conceptual Framework. **(4 marks)**

b) IAS 1 '*Presentation of Financial Statements*' outlines the minimum information disclosures that Financial statements must contain, in order to meet the objective of the general purpose financial statements. In light of this statement, discuss the objective of general purpose Financial Statements and the minimum information disclosures as outlined in IAS 1. **(6 marks)**

c) In the Context of IAS 28 'Accounting for Associate Companies', discuss five (5) ways in which Significant Influence can be evidenced between an investor and investee company. **(5 marks)**

d) Describe the difference in the accounting treatment of a Joint operation and Joint venture as outlined in IFRS 11'Accounting for joint arrangements' **(6 marks)**

e) While attending a plenary session of a workshop on Financial Reporting in Kenya, one of the panelist's stated that 'The responsibility for the *content and Integrity* of the Financial Statements lie with both the Board of Directors and the External auditor'. Do you agree with this statement? Why? **(5 marks)**

SECTION B: ATTEMPT ANY TWO (2) QUESTIONS

QUESTION TWO(20 MARKS)

The trial balance of Ujuzi Ltd, a company quoted on the stock exchange, as at 31st March 2018 was as follows:

	Sh. '000'	Sh. '000'
Turn over		529,600
Purchases	333,800	
Interest	600	
Selling and distribution expenses	102,800	
Administrative costs	69,000	
Interim dividend	1,200	
Inventory(1st April 2017)	88,800	
Trade receivables and payables	109,000	86,800
Cash and cash equivalents	5,600	
2 million ordinary shares of Sh. 10 each		20,000
Share premium		48,800
General reserve		114,000
Retained earnings		69,800
4% loan		30,000
Land and buildings(land Sh.12 million)	76,000	
Plant and equipment	51,600	
Investment property	109,600	
Depreciation : buildings		12,800
Plant and equipment		25,200
Rental income		9,600
Proceeds from sales of plant and equip		1,400
	948,000	**948,000**

Additional information:

1. Inventory cost as at 31st March 2018 amounted to Sh.77, 600,000..
2. The income tax liability for the year is estimated at Sh.5,400,000.
3. During the year Ujuzi Ltd disposed of equipment which had cost Sh.3 million. The accumulated depreciation of this equipment was Sh.600,000. There were no other additions or disposals during the year.
4. Land and buildings were revalued on 1st April 2017 at Sh.160million which included Sh.20 million for land. The land and buildings were acquired on 1st April 2007. The buildings are being depreciated over their useful life of 50 years.
5. Plant and equipment are depreciated on a reducing balance basis at the rate of 20% per annum. No depreciation is provided in the year of disposal.
6. The fair value of investment property as at 31st March 2018 was Sh. 117,200,000. The company recognizes investment property in the books at a fair price.

Required:

a) Statement of comprehensive income of Ujuzi Ltd for the year ended 31st March 2018. **(12 marks)**

b) Statement of financial position of Ujuzi Ltd as at 31st March 2018. **(8marks)**

QUESTION THREE((20 MARKS)

Sifa Ltd has been experiencing dwindling sales in its business operations due to competition from other agents dealing with telecommunication equipment. On 1 January 2017 Sifa Ltd decided to diversify its operations to the information technology (IT) industry by acquiring Tele Ltd, a company dealing in the manufacture of IT equipment and software design. The summarised financial statements of Sifa Ltd and Tele Ltd Were as follows:

Income statements for the year ended 31st December 2017:

	Sifa Ltd Sh'000'	Tele Ltd 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	4,000
Expenses:		
Distribution costs	(3,500)	(100)
Administrative expenses	(2,500)	(100)
Finance costs	-	(200)
Profit before tax	12,475	3,600
Income tax expense	(3,000)	(600)
Profit after tax	9,475	3,000

Statement of Financial Position as at 31st December 2017:

	Sifa Ltd sh'000'	**Tele Ltd sh'000'**
Non-current assets:		
Property, plant and equipment	19,320	8,000
Investments	11,280	-
	30,600	8,000
Current assets:		
Inventory	5,000	3,000
Accounts receivable	4,200	3,400
Cash at bank	5,800	1,600

	15,000	8,000
Total assets	**45,600**	**16,000**
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh.10 each	10,000	2,000
Retained earnings	25,000	8,400
	35,600	10,400
Non-current liability: 10% debentures	-	2,000
Current liabilities:		
Accounts payable	7,500	3,200
Current tax	2,500	400
	10,000	3,600
Total equity and liabilities	**45,600**	**16,000**

Additional Information:

1. Sifa Ltd acquired 80% of the ordinary share capital of Tele Ltd for sh.280,000 and also acquired half of the 10% debentures in the company.
2. The fair value of the assets of Tele Ltd at the date of acquisition were the same as their book values except for plant whose fair value was higher than book value by sh.3.2 million. As at 1 January 2017, the plant had a remaining useful life of four years. SL Ltd depreciates plant on straight line basis based on cost.
3. During the post acquisition period, Sifa Ltd sold goods to Tele Ltd for 12 million. These goods had cost Sifa Ltd sh.9 million. Subsequently, Tele Ltd sold sh 10 million of these goods as at the year end.
4. On 30 June 2017, Sifa Ltd and Tele 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 amounts Tele Ltd owed Sifa Ltd.
6. Goodwill is considered to be impaired by 25% as at 31st December 2017. Goodwill is classified as an administrative expensive by the group.

Required:

a) Consolidated income statement for the year ended 31st December 2017 **(10 marks)**

b) Consolidated Statement of Financial Position as 31st December 2017. **(10 marks)**

QUESTION FOUR(20 MARKS)

a) Nenda ltd acquired 80% of ordinary share capital for sh 1120 million and 30% preference share capital in Zako ltd for sh 40 million on 1st September 2014. Zako ltd acquired 65% ordinary share capital in Kuja ltd for sh 94million on 1st January 2016. The financial year ends on 31st August 2017. Required;

i). Determine the effective control in Kuja ltd by Nenda ltd **(2 marks)**

ii). Determine the percentage of ownership in kuja ltd by both direct and indirect minority interest. **(3 marks)**

iii). Giving explanation, determine the effective date for the consolidation of the financial statements by Nenda limited **(2 marks)**

b) Briefly explain four (4) circumstances under which a parent company need not present consolidated financial statements in accordance with IFRS 10 '*Consolidated financial Statements'* **(4marks)**

c) On 1st Jan 2016, the net tangible assets of Gem ltd were sh 13,200,000, financed by sh 6,000,000 sh 1each ordinary shares and retained earnings of sh 7200,000. Great ltd, which owns various subsidiaries in the Manufacturing, Energy and Education sectors in Kenya acquired 1500,000 shares of Gem ltd for sh 4500,000 million. During the year, Gem's profit after tax for the year ended 31st December 2016 was sh 1,800,000 from which a dividend of sh 720,000 was paid.

Required:

a) Based on the Equity method of Accounting for Associates, compute Net Investment in Gem Ltd as it would appear in the Group's Statement of Financial Position as at 31st December 2016. **(6 marks)**

b) Briefly explain how this Net investment in Associate will be accounted for in the Group's Statement of Financial Position in subsequent years. **(3 marks)**

QUESTION FIVE (20 MARKS)

The accountant of KPLC Co has prepared the following list of account balances as at 31 December 2015

	Kshs' 000'
50p ordinary shares (fully paid)	350
7% shs1 preference shares (fully paid)	100
10% Loan stock	200
Retained earnings 1.1.2015	242
General reserve 1.1.2015	171
Land and buildings 1.1.2015(cost)	430
Plant and machinery 1.1.2015 (cost)	830
Aggregate depreciation	
Buildings 1.1.2015	20
Plant and machinery 1.1.2015	222
Inventory 1.1.2015	190
Sales	2,695
Purchases	2,152
Preference dividend	7
Ordinary dividend (interim)	8
Interest on Loan stock	10
Wages and salaries	254
Light and heat	31
Sundry expenses	113
Suspense account	135
Trade accounts receivable	179
Trade accounts payable	195
Cash	126

Additional information

a) Sundry expenses include shs9,000 paid in respect of insurance for the year ending 1 September 2015. Light and heat does not include an invoice of shs3,000 for electricity for the three months ending 2 January 2016, which was paid in February 2006. Light and heat also includes shs20,000 relating to salesmen's commission.

b) The suspense account is in respect of the following items.

	shs ' 000'
Proceeds from the issue of 100,000 ordinary shares	120
Proceeds from the sale of plant	300
	420

	285
Less consideration for the acquisition of KPLC	135

c) The net assets of KPLC were purchased on 3 March 2015. Assets were valued as follows:

	shs '000'
Investments	231
Inventory	34
	265

The entire inventory acquired was sold during 2015. The investments were still held by KPLC at 31.12.15. Any goodwill arising from the acquisition is considered to be impaired at the rate of 20%.

d) The property was acquired some years ago. The buildings element of the cost was estimated at shs100,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 December 2015 the property is to be revalued at shs800,000.
e) The plant which was sold had cost shs350,000 and had a net book value of shs274,000 as on the date of disposal. Shs36,000 depreciation is to be charged on plant and machinery for 2015.
f) The 50p ordinary shares all rank for dividends at the end of the year.

g) The management wish to provide for:

   i) A final ordinary dividend of 2p per share.
   ii) A transfer to general reserve of shs16,000.
   iii) Audit fees ofshs4,000

The proposed dividends were declared before the year end
h) Inventory as at 31 December 2015 was valued at shs220,000 (Cost).
i) Taxation is to be provided at shs30,000. Assume a corporation tax rate of 30%

Required

Prepare the published financial statement of KPLC Co as at 31 December 2015.