

10



(Knowledge for Development)
KIBABII UNIVERSITY

**UNIVERSITY EXAMINATIONS
2021 /2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMINATION**

**FOR THE DEGREE OF MASTERS OF BUSINESS
ADMINISTRATION**

COURSE CODE: MBA 821

COURSE TITLE: ADVANCED ACCOUNTING

DATE: 3RD JUNE, 2022

TIME: 2.00PM - 5.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question **One** from section **A** and Any other **Two Questions** from section B

1. Answer Question One in Section A and Any other **THREE (3)** Questions in Section B

2. Question **one** carries **40**marks and each of the other **THREE** questions carry **20** marks each

TIME: 3 Hours

KIBU observes **ZERO** tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.



QUESTION ONE (30 MARKS)

- a) Explain five actions of an insolvent debtor that would compel a creditor to file a bankruptcy petition against the insolvent debtor (10mks)
- b) One or several creditor may jointly make petitioner against a debtor in court and of hearing date determined. Give three circumstances under which the creditor may make the petitioner (3 marks)
- c) The following is a summarized balance sheet of Weak limited as on 31st march 2018

Liabilities	Sh.	assets	
14,000 equity shares of sh 100 fully paid	1,400,000	Sundry assets	1,800,000
General reserve	10,000	Discount on issue of debentures	10,000
10% Debentures	200,000	Profit and loss A/c	90,000
Trade payables	240,000		
Bank overdraft	50,000		
	1,900,000		1,900,000

Strong ltd agreed to take over the business of Weak ltd. The market value of 75% of sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book value. There is unrecorded liability of sh. 25,000

Required

Determine the purchase consideration under net asset method. (6mks)

- d) Following is the Balance Sheet of M Ltd. as at 31st March, 2019

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

(11 marks)

(Total 30 marks)

QUESTION TWO (20 MARKS)

The following are particulars of the joint and separate estate of the firm and partners Waswa and Yeswa on 31st March 2018

Liabilities	Firm	Waswa	Yeswa
Waswa	320,000		
Yeswa	240,000		
Creditors	1,200 000	80 000	320 000
Preferential creditors	80 000	—	—
Mortgage on buildings	320 000	—	—
Bank overdraft	400 000	—	—
Excess of assets over Liabilities		<u>160 000</u>	
	<u>2560 000</u>	<u>560 000</u>	<u>480 000</u>
Assets			
Debtors	240 000		
Stock	800 000		
Furniture	80 000	80 000	80.000
Buildings	560 000	—	—
Investments	—	160 000	160 000
Plant	800 000	—	—
Capital Waswa and Yeswa	—	320 000	—
240 000			
Cash	<u>80 000</u>		
	<u>2560 000</u>	<u>560 000</u>	<u>480 000</u>

Bank overdraft was secured by second charge on building

Estimate realizable values are firm asset. Building sh. 440,000, plant sh 160,000 furniture sh. 40,000 stock sh. 320,000 debtors good sh 80.000 doubtful 80.000 (realizable value sh 40 000) Bad sh. 40 000

Waswa's assets furniture sh 40 000 investment sh 120 000

Yeswa's assets furniture sh. 40 000 investment sh. 80 000

Required

- a) Statement of affairs of joint estate (6 mks)
- b) Deficiency account of joint estate (6mks)
- c) Statement of affairs and deficiency account of Waswa (4MKS)
- d) Statement of affairs and deficiency account of Yeswa (4mks)

(Total 20 marks)

QUESTION THREE (20 MARKS)

- a) Briefly explain means through which a company can re-organize its capital through capital reduction as provided in the companies act? (12 mks)
- b) Differentiate internal capital reconstruction and external capital reconstruction (2mks)
- c) Based on the provision of the insolvent act (2015) briefly explain alternatives to bankruptcy proceedings against an insolvent entity (6mks)

(Total 20 marks)

QUESTION FOUR (20 MARKS)

- a) One or several creditor may jointly make petition against a debtor in court and of hearing date determined. Give four circumstances under which the creditor may make the petitioner (4 marks)
- a) Explain any two methods of charging goods to branches by head office (4 marks)
- b) ABC has a branch in Bungoma to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit, Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account. Relating to calendar year 2018, Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Sh.
Goods received from Head Office at invoice price	600,000
Returns to Head Office at invoice price	12,000
Stock at Bungoma as on 1st Jan., 2018	60,000
Sales in the year - Cash	200,000
Credit	360,000
Sundry Debtors at Bungoma as on 1st Jan. 2018	72,000
Cash received from Debtors	320,000
Discount allowed to Debtors	6,000
Bad Debts in the year	4,000
Sales returns at Bungoma Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2018 at invoice price	120,000

Prepare the following accounts in the Head Office Ledger (3 marks each)

- i. Branch stock account
- ii. Branch stock adjustment account
- iii. Goods sent to branch account
- iv. Branch income statement for the year 2018

(Total 20 marks)

QUESTION FIVE(20 MARKS)

Mtito Limited purchased 80% of the ordinary shares of Andei Limited on 1 May 2019. On 30 September 2019, the trial balances of the two companies were as follows:

	Mtito Ltd.	Andei Ltd.
	Sh. '000'	Sh. '000'
Cash at bank	-	11,500
Receivables	62,300	51,600
Dividend: Interim paid	4,500	3,000
Expenses (including depreciation of fixed assets)	184,700	123,600
Freehold land and buildings (net book value)	25,500	18,900
Investment in Andei Limited	94,260	
Motor vehicles (net book value)	6,700	4,900
Purchases	375,400	335,200
Plant and machinery (net book value)	28,900	21,600
Inventory	22,100	17,600
Taxation: installment tax paid	<u>9,100</u>	<u>6,380</u>
	<u>813,460</u>	<u>594,280</u>
Bank overdraft (secured on land and buildings)	6,700	
Payables	38,200	17,100
Sales	586,600	480,000
Share capital: Authorised, issued and fully paid		
Ordinary shares of Sh.10	60,000	20,000
Retained Profits	<u>121,960</u>	<u>77,180</u>
	<u>813,460</u>	<u>594,280</u>

Additional information:

1. Closing inventory was Sh.24, 200,000 in Mtito and Sh.19,200,000 in Andei.
2. The turnover and expenses in Andei accrued evenly over the year; the rate of gross profit was constant throughout the year.
3. Mtito paid its interim dividend on 15th May 2019; Andei paid its interim dividend on 31 March 2019. Mtito has not yet accounted for any dividend receivable from Andei.
4. Between 1 May 1996 and 30 September 2019, Mtito sold goods to Andei. These goods had cost Mtito Sh.30 million. Mtito earned a gross profit of 37.5% on the selling price of these goods. At 30 September 2019, one sixth of these goods were included in the stock of Andei. Included in the debtors figure for Mtito was Sh.7,200,000 from Andei: Mtito's account in Andei's books agreed with this figure.

5. The self assessment tax returns of Mtito and Andei show the corporation tax charge for the year at Sh.10,020,000 and Sh.7,980,000 respectively; both companies have paid instalment tax on the preceding year basis.
6. The directors have proposed that Mtito should pay a final dividend of Sh.6 million and Andei Sh.3 million.
7. Goodwill arising on the acquisition of Andei is considered to be impaired at sh.1million.

Required:

A consolidated income statement for the year ended 30 September 2019 (Total 20 marks)