



(Knowledge for Development)

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 411

COURSE TITLE: COMPANY ACCOUNTS

DATE: 23RD MAY, 2022

TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

SECTION A (COMPULSORY)

QUESTION ONE

- a) IAS 27 has the objectives of setting standards to be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent and in accounting for investments in subsidiaries and associates.

Required:

- i) Examine the circumstances under which the parent company may elect not to present consolidated financial statements (6 marks)
 - ii) Suggest four conditions under which control of a subsidiary company is deemed to have been achieved by the parent company (4 marks)
- b) The statements of the financial position of H Ltd and S Ltd as at 31 March 2019 are set out as below:

	H Ltd	S Ltd
	(000)	(000)
Non- Current assets		
Land and buildings	2,000	
Investment in S Ltd	3,350	
Plant and equipment	1,010	2,210
Motor vehicle	510	345
	6,870	2,555
Current assets		
Inventories	890	352
Trade receivables	1,372	514
Cash and cash equivalents	89	51
	2,351	917
Total	9,221	3,472
Equity capital		
Share capital sh.1 ordinary shares	1,000	500
Retained earnings	4,225	2,610
Revaluation surplus	2,500	
	7,725	3,110
Non- current liabilities		
10% debentures	500	
Current liabilities		
Trade payables	996	362
Total	9,221	3,472

Additional information:

- i) Included in trade receivables of H Ltd are amounts owed by S Ltd of sh.75,000, the current accounts do not at present balance due to a payment of sh.39,000 being cash in transit at the year end from S Ltd.
- ii) Included in the inventories of S Ltd are items purchased from H Ltd during the year for sh. 31,200. H Ltd marks up its goods by 30% to achieve the selling price.

- iii) H Ltd had acquired S Ltd for sh.2, 000,000, 10 years ago when the balance on its earnings were sh.1,044,000.
- iv) Sh. 180,000 of the recognized goodwill arising is to be written off due to impairment losses.
- v) S Ltd shares were trading at sh. 4.40 just prior to acquisition by H Ltd and this price has been used to value non-controlling interest.
- vi) It's the group policy to value non-controlling interest at fair value.

Required:

H Group consolidated statement of the financial position as at 31 March 2019

(20 marks)

SECTION B

QUESTION TWO

- a) International Accounting Standards (IAS)-28, States that an associate is an entity over which an investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Required:

Suggest the circumstances under which an entity would be deemed to have a significant influence over the other. (5 marks)

- b) P Ltd purchased 60% holdings of S Ltd for 6.1 million on 1 January 2015 when the retained earnings of S Ltd were sh.sh 3.6 million and 30% of A Ltd on 1 July 2016 for sh.4.7 million when its retained earnings were sh. 6.2 million.

As at 31 December 2018, the consolidated statement of the financial position of P Ltd, S Ltd and A Ltd were as set out:

	P Ltd	S Ltd	A Ltd
	(million)	(million)	(million)
Property, plant and equipment	42.1	15.8	16.1
Investment in A Ltd	10.8		
	52.9	15.8	16.1
Current assets	7.9	3.7	5.6
Total assets	60.8	19.5	21.7
Share capital	3.0	2.4	2.8
Retained earnings	41.6	10.6	9.2
	44.6	19.5	21.7
Liabilities	16.2	6.5	9.7
Total equity & liabilities	60.8	19.5	21.7

Additional information:

- I) An impairment test was conducted at year end and revealed a cumulative loss of 0.7 million loss in respect of the investment in A Ltd of which 0.2 million relates to the current year. This loss has not been reflected in P Ltd's financial statements as the investment is not impaired below its original cost.
- II) No impairment losses were found necessary on the investment in S Ltd.
- III) During the year A Ltd sold goods to P Ltd for sh.3 million at a profit margin of 20%. 1 million of these goods remained in P Ltd's inventories at the year end.

Required:

P Ltd consolidated statement of the financial position as at 31 December 2018

(15 marks)

QUESTION THREE

The draft income statements and summarized statements of changes in equity of Hope Ltd and Despair Ltd for the year ended 30 June 2017 are set out as below.

	Hope Ltd	Despair Ltd
	Sh.	Sh.
Revenue	159,800	108,400
Cost of sales	(79,200)	(61,600)
Gross profit	80,600	46,800
Administrative expenses	(27,000)	(16,000)
Investment income:		
Ordinary dividends	9,000	
Loan interest	1,000	1,500
Finance cost	(6,000)	(4,000)
Profit before tax	57,600	28,300
Income tax expense	29,400	14,800
Profit for the period	28,200	13,500
Statement of equity		
Opening equity	133,400	53,600
Profit for the period	28,200	13,500
Ordinary dividends	15,000	10,000
Closing equity	146,000	57,100

Other information:

- i) Hope Ltd acquired interest in Despair Ltd as follows: 9,000 of the 10,000 sh. 1 ordinary shares on 30 June 2013 when the equity of Despair Ltd was sh.35,000 (ordinary shares sh.10,000 and retained earnings sh.25,000).
- iii) Hope Ltd has not provided Despair Ltd with any of its loan capital.

- iv) The revenue of hope Ltd includes sh. 19,000 in respect of goods sold to Despair Ltd at a price that yielded a profit of 20% on selling price. Sh. 8,000 of these goods were in the inventory of Despair Ltd as at 30 June 2017 inventories of such goods at 30 June 2017 amounted to sh.6,000.

Required:

- a) Explain how the investment in Despair Ltd should be accounted for in the group accounts (4 marks)
- b) Produce the consolidated income statement and statement of changes in equity of the group for the year ended 30 June 2017 (16 marks)

QUESTION FOUR

- a) Evaluate the rationale for the preparation of cash flow statements by corporate entities (4 marks)
- b) The extract below shows the consolidated financial statements of AH Group as at 31 December 2020.

AH Group

Consolidated income statement for the year ended 31 December 2020.

	Sh. (000)
Revenue	85,000
Cost of sales	(59,750)
Gross profit	25,250
Operating expenses	(5,560)
Finance cost	(1,400)
Profit before disposal of property	18,200
Disposal of property – w(ii)	1,250
Profit before tax	19,450
Income tax	(6,250)
Profit for the year	13,200

Attributable to:

Non-controlling interest	655
Equity shareholders of the parent	12,545
	13,200

- i) AH Ltd had acquired 80% of the issued ordinary shares of its subsidiary, PM Ltd several years ago.
- ii) On 1 June 2020, AH Ltd acquired 75% of issued ordinary shares of DM Ltd in exchange for a fresh issue of sh 2 million of its sh.1 shares , issued at a premium of sh. 1 each and sh. 2 million in cash. The net assets of DM Ltd at the date of acquisition were assessed to have the following fair values :

	Sh.(000)
Property, plant & equipment	4,200
Inventories	1,650
Receivables	1,300
Cash	50
Trade payables	(1,950)
Tax	(250)
	5,000

- iii) During the year, AH Ltd disposed of a non-current asset of property for proceeds of sh. 2,250,000. The carrying value of the asset at the date of disposal was sh.1,000,000. There were no other disposals of non- current assts. Depreciation of sh. 7,950,000 was charged against consolidated profits for the year.
- iv) Intangible assets comprise of goodwill on acquisition of PM Ltd and DM L td in 2020 and has remained unimpaired since acquisition.

Required:

Consolidated cash flow statement of the AH Group for the year ended 31 December 2020 in the form prescribed by 1AS 7- Cash flow statements (16 marks)

QUESTION FIVE

The following trial balance was extracted from the books of Alpha Ltd as at 31 October 2018

	Dr (sh. million)	Cr (sh.million)
Property, plant and equipment	6,800	
Accumulated depreciation 1 November 2017		2,400
Tangible assets	2,000	
Accumulated amortization (1 November 2017)		400
Investment property- land	500	
Inventory as at 1 November 2017	1,200	
Purchases	8,000	
Sales		15,000
Administrative expenses	2,600	
Distribution expenses	2,400	
Debenture interest	100	
10% debentures		2,000
Suspense account		2,000
Ordinary share capital (sh.100 each)		5,000
Share premium		1,000
Retained profits as at 1 November 2017		1,500
Revaluation reserves- property, plant & equipment		200
Cash at bank	2,000	
Receivables	6,200	
Payables		3,000
Financial assets (fair value)	600	
Financial assets- Available for sale	1,000	
Deferred tax		500
Lease rental paid	200	
Obligation under finance lease 1 November 2017		1,000
Installment tax paid	400	
	34,000	34,000

Additional information :

- i) The cost and net realizable value of the inventory as at 31 October 2018 was sh. 1,600 million and sh. 1,500 million.

AH Group: Extract from the statement of changes in equity for the year ended 31 December 2020.

	Share capital (000)	Share premium (000)	Retained earnings (000)
Opening balance	18,000	10,000	18,340
Issue of share capital	2,000	2,000	4,000
Profit for period			12,545
Dividends			(6,000)
Closing balance	20,000	12,000	24,885

AH Group: statement of financial position with comparatives as at 31 December 2020

	31 December 2019 (000)	31 December 2020 (000)
Non-current assets		
Property, plant & equipment	50,600	44,050
Intangible assets –w(iii)	6,410	4,160
	57,010	48,210
Current assets		
Inventories	33,500	28,750
Trade receivables	27,130	26,300
Cash	1,870	3,900
	62,500	58,950
Total	119,500	107,160
Equity and Liabilities		
Share capital	20,000	18,000
Share premium	12,000	10,000
Retained earnings	24,885	18,340
	56,885	46,340
Non-controlling interest	3,625	1,920
Non-current liabilities		
Interest bearing borrowings	18,200	19,200
Current liabilities		
Trade payables	33,340	32,810
Interest	1,360	1,440
Tax	6,100	5,450
	40,800	39,700
Total	119,510	107,160

Notes:

- ii) Depreciation on property, plant and equipment is to be provided at sh.800 million and classified under cost of sales. Sh. 10 million of this amount relates to excess depreciation on revaluation.
- iii) Intangible assets are to be revalued at sh. 1,800 million. Amortization of sh.400 million is to be charged and classified as administrative expenses.
- iv) Land is held for capital appreciation and is accounted for at fair value. As at 31 October 2018 the market value of land was sh. 550,000
- v) The suspense account relates to a new issue of shares by the firm. On 1 July 2018, the firm issued 12 million shares for sh.150 each. The balance in the suspense account is investment income.
- vi) The financial assets were purchased during the year. The financial assets are to be recognized as at 31 October 2018 as follows:

At fair value	sh. 700 million
Available for sale	sh. 1,200 million
- vii) Deferred tax of sh.60 million is to be recognized as a result of revaluation of financial assets available for sale
- viii) Current year's estimated tax is sh. 500 million. The tax liability is to be reduced to sh.300 million.
- ix) Interest on finance lease is at the rate of 10% per annum and is payable together with the rental on 31 October 2018.

Required:

- a) Published statement of comprehensive income for the year ended 31 October 2018 (8 marks)
- b) Summarized statement of changes in equity (5 marks)
- c) Published statement of financial position as at 31 October 2018 (7 marks)