(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREEOF BACHELOR OF COMMERCE

COURSE CODE: BCA 411

COURSE TITLE: COMPANY ACCOUNTS

DATE: 26TH JANUARY 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

You are the accountant responsible for training at Develop, an entity with a number of investments throughout the world. A key financial reporting task is to prepare a consolidated financial statements and this is an important aspect of the training of new accountants.

A recently employed trainee has sent you this memorandum

" I have just attended my first training course and have learnt the mechanics of how to treat subsidiaries, associates and trade investments in the consolidated accounts. i'm reasonably comfortable with the numbers but the concepts baffle me. Why does the exercise of adding together the statements of financial position of our entity with those of our subsidiaries give our shareholders useful financial information? Why do we treat associates differently- I find the concept of adding together all the net assets and showing our share as one amount particularly confusing? I'm happier with the treatment of trade investments, at least I can see that the figure is what we paid to buy the shares. Why not do this for all our investments. I don't need a detailed explanation of the mechanics, which I'm already happy with.

a) Explain the principles underpinning the preparation of consolidated financial statements (6marks)
b) Examine the circumstances under which subsidiary companies may be exempted from consolidated group financial statements (6 marks)
c) Distinguish between full method and partial method of determining goodwill arising on acquisition of a subsidiary company (6 marks)
d) Explain the information needs of any six users of consolidated financial statements (6 marks)
e) Evaluate the rationale for preparation and presentation of consolidated financial statements by corporate entities (6 marks)

SECTION B

ANSWER ANY TWO QUESTIONS

QUESTION TWO

a) Distinguish between pre -acquisition and post- acquisition reserves (4 marks)
b) H Ltd acquired S Ltd 10 years ago. The statement of the financial position of the two companies as at 31 December 2018 are set out as below.

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

Additional information:

i) Included in trade receivables of H Ltd are an amount 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 in transit at year end from S Ltd.

ii) On the date of acquisition, S Ltd had sh 1,044,000 as a balance on its reserves account.

iii) Sh. 180,000 of the recognized goodwill arising on acquisition is to be written off due to impairment.

iv) 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 its selling price.

Required:

Consolidated statement of the financial position of H Ltd group as at 31 December 2018

QUESTION THREE (16 marks)

a) Examine factors that may lead to business combination among firms (5 marks)

b) Omega Ltd was formed 10 years ago. On 1 January 2010, the company purchased 60% of Alpha Ltd share capital for sh.6.1 million, when the retained earnings were sh.3.6 million and 30% of Beta Ltd for sh. 4.7 when its retained earnings were sh.6.2 million.

At 31 December 2020, the consolidated statement of the financial position of the entities are as below.

	Omega Ltd	Alpha Ltd	Beta Ltd
Property plant & equipment	42,100,000	15,800,000	16,100,00
Investment Beta Ltd	10,800,000		
	52,900,000	15,800,000	16,100,000
Current assets	7,900,000	3,700,000	5,600,000
	60,000,000	**19,500,000**	**21,700,000**
Share capital	3,000,000	2,400,000	2,800,000
Retained earnings	41,600,000	10,600,000	9,200,000
	44,600,000	13,000,000	12,000,000
Liabilities	16,200,000	6,500,000	9,700,000
	60,800,000	**19,500,000**	**21,700,000**

Additional information:

i) An impairment test was conducted as at year end and revealed cumulative impairment losses of sh. 700,000 in respect of the investment in Beta Ltd of which sh. 200,000 relates to the current year. This loss is not reflected in Omega Ltd's separate financial statement as the investment is not impaired below its original cost.

ii) No impairment losses were found necessary on the investment in Alpha Ltd

iii) During the year Beta Ltd sold goods to Omega Ltd for sh. 3 million at a profit margin of 30%. One million of this goods remained in Omega Ltd's inventories at the year end.

Required:

Prepare the consolidated balance sheet of Omega Ltd group as at 31 December 2020

(16 marks)

QUESTION FOUR

a) Discuss the strategies that a firm may adopt in order to achieve organizational growth(6 marks)

b) P Ltd acquired 60% of the 100,000 equity shares in S Ltd on 1 May 2015.

The income statement for the two companies for the period ended 31December 2015 are shown below.

	P Ltd (sh.)	S Ltd (sh.)
Revenue	170,000	80,000
Cost of sale	(65,000)	(36,000)
Gross profit	105,000	44,000
Other income- dividends from S Ltd	3,600	
Administration expenses	(43,000)	(12,000)
Profit before tax	65,600	32,000
Income tax expenses	(23,000)	(8,000)
Year profit	**42,600**	**24,000**

Further notes:

Dividends paid by 31 December 2015	(12,000)	(6,000)
Retained earnings	30,600	18,000
Retained earnings b/f	81,000	40,000
Retained earnings c/f	**111,600**	**58,000**

Required:

a) Prepare the consolidated income statement for P Ltd as at 31 December 2015 (9 marks)

b) Draw up as a statement of changes in equity and non- controlling interest for P group Ltd as at 30 May 2015 (5 marks)

QUESTION FIVE

a) The following trial balance was extracted from the books of ABC Ltd as at 31 october 2018.

	Dr (sh. million)	Cr (sh.million)
Property,plant and equipment	6,800	
Accumulated depreciation 1Naovember 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.

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)