

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

2<sup>ND</sup> SEMESTER 2023/2024 ACADEMIC YEAR

**THIRD YEAR EXAMINATION FOR THE DEGREE OF  
BACHELOR OF COMMERCE**

**ACCT 321: ADVANCED FINANCIAL ACCOUNTING 2**

***STREAM:***

***TIME: 2 HRS***

***DAY: FRIDAY [8.30-10.30 A.M]***

***DATE: 12/04/2024***

**THIS QUESTION PAPER CONSISTS OF NINE (9) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**



**Instructions:**

1. Answer question one (compulsory) and any other two questions
2. Start a new question on a new page
3. Show all working on the answer sheet
4. Do not write anything on the question paper

**QUESTION 1**

(a) A acquired B and C shareholding on 30<sup>th</sup> June 20X3. Their respectively trading, project and loss account and balance sheet as at 31<sup>st</sup> December 20X3 are as follows:

**INCOME STATEMENT**

	Kshs '000'	Kshs '000'	Kshs 000'
	A	B	C
Sales	50,000	30,000	20,000
Cost of sales	<u>(20,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Gross profit	30,000	20,000	10,000
Expenses	<u>(10,000)</u>	<u>(7,000)</u>	<u>(6,000)</u>
Net profit	20,000	13,000	4,000
Tax	<u>(4,000)</u>	<u>(2,000)</u>	<u>(1,000)</u>
Profit after tax	16,000	11,000	3,000
Dividends	<u>(5,000)</u>	<u>(3,000)</u>	<u>(1,000)</u>
Retained profit	11,000	8,000	2,000
Retained profit b/f	<u>25,000</u>	<u>10,000</u>	<u>7,000</u>
Retained profit c/f	36,000	18,000	9,000

**FINANCIAL POSITION**

	Kshs '000'	Kshs '000'	Kshs 000'
	A	B	C
Fixed Assets	30,000	25,000	15,000
Investment in B	30,000	-	-
C	4,000	-	-
Current assets	20,000	8,000	5,000
Current Liabilities	6,000	3,000	(2,000)
Net assets	78,000	30,000	18,000
Financed by:			
Ordinary shares	42,000	12,000	9,000
Reserves	<u>36,000</u>	<u>18,000</u>	<u>9,000</u>
	<u>78,000</u>	<u>30,000</u>	<u>18,000</u>



**Additional information**

1. A acquired 80% of the shareholding in B and 20% of C
2. Goodwill on acquisition is tested for impairment and found to have lost a 1/5 its original cost. Investment in associates is also tested for impairment and found to have lost 1/5 of the cost of the premium on acquisition.
3. A does not accrue dividends receivable form the subsidiary and the associate company.
4. There was no inter-company indebtedness.
5. Profit and loss items are deemed to accrue evenly throughout the year
6. B and C have not paid out dividend for the year

**Required**

- i) Prepare the consolidated income statement. **(6marks)**
- ii) Financial position as at 31<sup>st</sup> December 20x3 **(6marks)**
- iii) Show workings **(3marks)**

(b) The Accounting standards play a vital role in regulating accounting practices.

**Required**

- i) Explain why it was important to develop the Accounting standards and even expanded them from the Kenyan Accounting Standards (KAS) to the International Accounting Standards (IAS) **(10marks)**

(c) Divesture from a Venture involves pulling out from a business before its useful life is over.

**Required**

With examples explain the reasons that may force a business to divest. **(5marks)**

**QUESTION 2**

(a) Gawanya Ltd. is preparing a segment report for inclusion in its financial for the year ended 31<sup>st</sup> December 2021. The figures given below relate to Gawanya Ltd and its subsidiaries but exclude information on associated companies.

	sh.'000'
Sales to customers outside the group by stationery division	11,759
Sales to customers outside the group by Kenyan companies	28,200
Sales not derived from stationery, tissue or packaging activities	3,290
Sales made to customers outside the group by the tissue division	18,390
Assets used by the Ugandan subsidiary companies	30,600
Assets not allocable to stationery, tissue or packaging activities	14,856
Assets used by the stationery division	31,750
Sales by the tissue division to other group members	3,658
Assets used by the packaging division	17,775
Assets used by the Kenyan companies	14,820
Sales not allocated to Kenya, Uganda or other areas	3,290
Sales by the stationery to other group members	1,227
Sales made by the group to other areas of the world	1,481
Expenses not allocated to Kenya, Uganda or other areas	4,075
Sales to customers outside the group by Ugandan companies	7,227
Expenses not allocated to stationery, tissue or packaging services	5,004
Sales by Uganda companies to group members	2,117
Sales to customers outside the group for bureau service	5,200
Sales by Kenyan companies to other group members	2,430
Assets used by the tissue division	44,620
Assets used by the group in other areas	21,660
Assets not allocated to Kenya, Uganda or other areas	14,921
Segmental net profit by industry	
Stationery	2,442
Tissue	5,916
Packaging	821
Kenya	4,873



Uganda	3,127
Other areas	487
Consolidated net profit by industry	8,978
Consolidated net profit by geographical area	8,047

**Required**

An industry and geographical segment in accordance with IAS14 (Reporting financial Information by Segment) for inclusion in the annual report to give the maximum information to the shareholders. **(12 marks)**

(b) Mergers and Acquisition are the most popular means of corporate restructuring or business combinations. Although mergers and acquisitions are a good way of restructuring corporate entities, sometimes entities may adopt hostile takeovers.

**Required**

Explain the various tactics that a target company may take **(8 marks)**

**QUESTION 3**

(a) XYZ LTD historical financial statement are as follows;

Balance sheet as at 31<sup>st</sup> December

	<b>20x3</b>	<b>20x4</b>
	<b>kshs</b>	<b>ksh</b>
Fixed Assets	1000,000	950,000
Stock	500,000	550,000
Debtors	600,000	800,000
Bank and Cash	400,000	500,000
Creditors	(500,000)	(400,000)
Tax	(100,000)	(200,000)
Dividends	<u>(200,000)</u>	<u>(250,000)</u>
Net assets	<b><u>1700,000</u></b>	<b><u>1950,000</u></b>



**Financed by:**

Ordinary shares	800,000	800,000
Loan	100,000	80,000
Revenue reserves	<u>800,000</u>	<u>1070,000</u>
	<b><u>1,700,000</u></b>	<b><u>1,950,000</u></b>

**Income statement for the year ended 31<sup>st</sup> December 20x4**

Sales	2,120,000
Opening stock	(500,000)
Purchases	(1,000,000)
Closing stock	<u>(550,000)</u>
<b>Gross profit</b>	<b>1,170,000</b>
Expenses	(400,000)
Interest	<u>(50,000)</u>
Profit before tax	<b>720,000</b>
Tax	<u>(200,000)</u>
<b>Profit after tax</b>	<b>520,000</b>
Dividends	<u>(250,000)</u>
<b>Retained earnings</b>	<b>270,000</b>
Retained earnings b/f	<u>800,000</u>
<b>Retained earnings c/f</b>	<b><u>1,070,000</u></b>

**Additional information****a) price indices were as follows:**

At purchase of fixed assets	110
At the issue of shares	100
At 31 <sup>st</sup> December 20x3	160
At 31 <sup>st</sup> October 20x3	155



At 31 <sup>st</sup> December 20x4	180
At 31 <sup>st</sup> October 20x4	175
Average 20x4	170
At 30 <sup>th</sup> June 20x4	165

- b) Stocks are acquired on average 2 months before year end.
- c) Half of the interest was paid on #0<sup>th</sup> June 2024 at the same time, part of the loan was paid.
- d) the balance of the interest rate was paid at the year end

**Required**

Restate the account to the current purchasing power. **(12 marks)**

- (b) In presenting the financial statements the accountant should fairly present the financial position performance and cash flows of an enterprise. In presenting these statements, they have to use some basic accounting concepts.

**Required**

Explain the following Accounting concepts.

- i) Fair presentation **(2 marks)**
- ii) Going concern **(2 marks)**
- iii) Consistency of presentation **(2 marks)**
- iv) Materiality concept **(2 marks)**

**QUESTION 4**

- (a) A Ltd acquired 50% of the shareholding of B Ltd on 1<sup>st</sup> January 20x2. On that date the reserves of B stood at Ksh 3,000,000. The financial statements as at 31<sup>st</sup> December 20x3 are:

	<b>Income Statement</b>	
	<b>A Ltd</b>	<b>B Ltd</b>
	<b>Ksh ‘000</b>	<b>Ksh ‘000’</b>
Sales	20,000	15,000
Cost of sales	<u>(10,000)</u>	<u>(8,000)</u>



<b>Gross profit</b>	<b>10,000</b>	<b>7,000</b>
Expenses	<u>(3,000)</u>	<u>(2,500)</u>
<b>Net profit</b>	<b>7,000</b>	<b>4,500</b>
Tax	<u>(2,000)</u>	<u>(1,500)</u>
<b>Profit after tax</b>	<b>5000</b>	<b>3,000</b>
Dividends	<u>(1,000)</u>	<u>(1,000)</u>
<b>Retained profits</b>	<b><u>4,000</u></b>	<b><u>2,000</u></b>

### Financial Position

	<b>A Ltd</b>	<b>B Ltd</b>
	<b>Ksh '000'</b>	<b>Ksh '000'</b>
Fixed assets	10,000	8,000
Investment in B	<u>4,000</u>	<u>-</u>
Stock	3,000	2,000
Debtors	2,000	1,000
Cash	<u>1,000</u>	<u>500</u>
	<b><u>6,000</u></b>	<b><u>3,500</u></b>
Creditors	1,000	1,000
Dividends	1,000	1,000
Tax	<u>1,000</u>	<u>500</u>
	<u>3,000</u>	<u>2500</u>
Net assets	<b><u>17,000</u></b>	<b><u>9,000</u></b>
<b>Financed by:</b>		
Share capital	10,000	3,000
Reserves	<u>7,000</u>	<u>6,000</u>
	<b><u>17,000</u></b>	<b><u>9,000</u></b>

### Additional Information

- (i) A Ltd does not accrue dividends receivable from B Ltd
- (ii) Goodwill is tested for impairment and is found to have lost Ksh 200,000 for each of the years to 31/1/20x3.





(iii) Directors of A have dedicated to use the proportional method of consolidation.

**Required**

i) Prepare the consolidated income account for year ended 31/12/ x 3 (6 marks)

ii) Prepare the financial position of the same date (6marks)

(b) A cash flow statement is a very important financial statement to a business organization.

**Required**

i) What are the limitations of a cash flow statement (4marks)

ii) What are the objectives of having a cash flow statement as part of the final accounting statements (4marks)

