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**University Examinations 2015/2016**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

 BACHELOR OF COMMERCE

**BFC 3426: ADVANCED FINANCIAL REPORTING**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Gedo ltd has an authorized and issued share capital of 1, 000,000 ordinary shares of shs. 5 each fully paid and a retained profit balance of shs. 810,000 on 31st December 2013 after paying dividend for the year ended on that date.

The following additional information is provided:

1. On 31st October 2013 Gedo Ltd purchased 90,000 of the 100,000 issued shares of shs. 5 each fully paid in Mumo Ltd. For shs. 712,500. The profit and loss balance of Mumo Ltd. As of 31st December 2012 was shs. 172, 500 after paying a dividend for the year ended on that date.
2. Gedo Ltd. made a trading profit of shs. 932,000 and paid a dividend of 20% while Mumo Ltd. made a trading profit of shs 200,000and paid a dividend of 25% for the year ended 31st December 2013.
3. On 31st December, 2014, Gedo Ltd. made trading profit of shs. 1, 327, 000 and paid a dividend of 25% and Mumo Ltd. made losses of shs. 205,000 and paid no dividend.
4. During the year ended 31st December 2014, Mumo Ltd. manufactured and sold a machine for shs. 400,000 which included a profit on sales price to Gedo Ltd. of 20%. The machine has been included in the fixed asset of Gedo Ltd. and a full years depreciation at the rate of 20% on cost has been provided.

**Required:**

Show how the above items would be reflected in the consolidated statement of financial position as at 31st December, 2014, include the corresponding figures for the preceding year with detailed workings to support your figures (14 marks)

1. The balance sheet of A Ltd and B Ltd as at 31.12.2007 are presented below. A ltd acquired the whole of the share capital of B ltd on 1.1.2008

Balance Sheet

|  |  |  |
| --- | --- | --- |
|  | A LTD | B LTD  |
|  | Shs. 000 | Shs. 000 |
| Ordinary shares of shs. 1 | 2,400 | 600 |
| Reserves  |  |  |
| Shareholders’ funds  | 2,920 | 800 |
| Current liabilities  |  |  |
|  |  |  |
| Noncurrent assets  | 2,000 | 720 |
| Current assets  |  |  |
|  |  |  |

**Required:**

1. What is the effect of this acquisition in A Ltd Balance sheet if the consideration for shares was a cash payment of Kshs. 8, 400,000 (4 marks)
2. The consideration is 800,000 shares of shs.10 per share with a premium of 50cts per share (4 marks)
3. Show the consolidated balance sheet as at 1.1.2008 (8 marks)

**QUESTION TWO (20 MARKS)**

The following information relates to Kudo Ltd. and its subsidiaries Nudo and Mudo Ltd. for year ended 31st December 2011.

|  |  |
| --- | --- |
|  | Profit and loss accounts  |
|  | Kudo  | Nudo  | Mudo  |
|  | Shs. 000 | Shs. 000 | Shs. 000 |
| Sales | 50,000 | 15,000 | 5,500 |
| Cost of sales  |  |  |  |
|  | 15,000 | 10,000 |  |
| Tax |  |  |  |
|  | 10,000 | 6,000 |  |
| Dividends  |  |  |  |
| Retained profit/loss | 2,500 | 6,000 |  |
|  | Balance Sheet  |
| Ordinary share capital of Shs. 1 | 75,000 | 15,000 | 5,000 |
| Retained profits  | 25,000 | 11,000 | 2,500 |
|  |  |  |  |
| Non-current assets  | 75,000 | 25,000 | 15,000 |
| Invested in: |  |  |  |
| Yudo Ltd.  | 15,000 | - | - |
| Mudo Ltd. | 10,000 | - | - |
| Net Current assets  | 25,000 | 11,000 | 5,000 |
| Creditors  |  |  |  |
| Proposed dividends  |  |  |  |
|  |  |  |  |

**Additional Information**:

Kudo Ltd. bought 60% in Yudo Ltd. on 1st January, 2009 at that time, Yudo Ltd retained profits was shs. 5,000,000 Kudo Ltd purchased 100% in Mudo Ltd. on 1st January 2011, Mudo Ltd. retained profits was then shs. 3,500,000.

Required:

A consolidated profit and loss account for Kudo group of Companies for the year ended 31st December 2011 and a balance sheet as at that date (20 marks)

**QUESTION THREE (20 MARKS)**

The following information relates to Didi ltd and its subsidiaries Sisi Ltd and Mimi Ltd for the year ended 31st December 2012.

**Profit and Loss Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Didi Ltd | Sisi Ltd  | Mimi Ltd |
|  | Shs. 000 | Shs. 000 | Shs. 000 |
| Sales  | 6,000 | 1,800 | 660 |
| Cost of sales  |  |  |  |
|  | 1,800 | 1,200 |  |
| Income tax  |  |  |  |
|  | 1,200 | 720 |  |
| Dividends  |  |  |  |
|  | 200 | 720 |  |
| **Balance sheet** |  |  |  |
| Ordinary share capital of shs. 1 | 9,000 | 1,800 | 600 |
| Retained profits  | 3,000 | 1,320 | 300 |
|  |  |  |  |
| Non-current assets  | 9,000 | 3,000 | 1,800 |
| Investment in: |  |  |  |
| Sisi Ltd  | 1,800 | - | - |
| Mimi Ltd | 1,200 | - | - |
| Net Current assets  | 3,000 | 1,320 | 600 |
| Creditors  |  |  |  |
| Proposed dividends  |  | - | - |
|  |  |  |  |

Additional Information:

Didi Ltd. bought 60% in Sisi Ltd. on 1st January 2010 at that time, Sisi Ltd retained profits was shs. 600, 000 Didi Ltd. purchased 100% in Mimi Ltd on 1st January 2012, Mimi Ltd retained profits was then 420,000.

**Required:**

A consolidated profit and loss account for Didi group of Companies for the year ended 31st December, 2012 and a balance sheet as at that date.

**QUESTION FOUR (20 MARKS)**

1. The following is the comprehensive income statement for Gedo Ltd. for the year ended 31st December 2012.

Gedo Ltd comprehensive income statement for the year ended 31st December 2012.

|  |  |
| --- | --- |
|  | Shs. ‘000’ |
| Sales  | 15,135 |
| Cost of sales  |  |
| Gross Profit  | 4,880 |
| Less operating expenses |  |
| Salaries and wages  | 1,300 |
| Interest paid  | 90 |
| Depreciation  | 485 |
| Other expenses  |  |
|  |  |
| Income before tax | 2,730 |
| Income tax |  |
| Income after tax  | 2,135 |
| Dividends paid  |  |
| Retained income for the year  |  |

**Required:**

1. Prepare a value added statement for the year (8 marks)
2. What is a value added statement and what are its contents (6 marks)
3. At January 1, 2014, Imenti group grants options that allow middle cadre managers to acquire 5 million of the company’s shs. 2 par ordinary shares within the following 6 years, but not before December 31, 2016. The exercise price is the market price of the shares on the date of grant, shs. 70 per share. The fair value of the options, estimated by an appropriate option-pricing model, is shs. 16 per option.

**Required:**

1. Calculate the total compensation expense over the three year vesting period (4 marks)
2. Show the accounting entries for the compensation expense over the three year vesting period. (4 marks)

**QUESTION FIVE (20 MARKS)**

The following is the balance sheet of Mada Ltd as at 31st December 2012

**Mada Balance Sheet as at 31st December 2012**

|  |  |
| --- | --- |
| **Share Capital**  |  |
| **Authorized** |  |
| 800,000 ordinary shares of shs. 5 each  | 4,000,000 |
| 300,000 7% preference shares of shs. 5 each  | 1,500,000 |
|  |  |
| **Issued and fully paid** |  |
| 800,000 ordinary shares of shs. 3.75 | 3,000,000 |
| 200,000 7% preference shares of shs. 5 | 1,000,000 |
|  | 4,000,000 |
| Profit and loss balance |  |
|  |  |
|  |  |
| **Non Current Assets**  | **Cost** | **Acc. Dep** | **NBV** |  |
| Land and building  | 1,000,000 | 200,000 | 800,000 |  |
| Furniture and Fitting  | 500,000 | 120,000 | 380,000 |  |
| Plant and machinery  | 2,000,000 | 480,000 | 1,520,000 |  |
| Motor vehicle  |  |  |  |  |
|  | 3,950,000 | 950,000 | 3,000,000 | 3,000,000 |
| **Current assets**  |  |  |  |  |
| Inventory  |  | 400,000 |  |  |
| Accounts receivables  |  | 300,000 |  |  |
| Cash and bank balances  |  |  |  |  |
|  |  | 800,000 |  |  |
| **Current liabilities**  |  |  |  |  |
| Payables  |  |  |  |  |
|  |  |  |  |  |
| Total net assets  |  |  |  |  |

Additional Information

1. The debit balance in the profit and loss a/c is to be written off
2. The creditors have agreed to take 100,000 new ordinary shares of shs. 5 each fully paid at par in part payment of the debts.
3. The ordinary shares are to be written down to shs. 1.25 per share and converted to new shs. 5 per share fully paid.
4. Te preference shareholders are to r3eceive 50,000 ordinary shares of shs. 5 per share, fully paid at par in exchange for their preference share.
5. The preference shareholders have agreed to receive 10,000, new ordinary shares of shs. 5 per share, in final settlement as consideration for their rights to dividend arrears.
6. The following revaluations will be affected.

|  |  |
| --- | --- |
|  | Shs.  |
| Land and buildings  | 1,000,000 |
| Machinery and equipment  | 1,050,000 |
| Motor vehicles  | 250,000 |
| Inventory  | 360,000 |

**Required:**

Show the necessary accounting entries to effect scheme of capital reorganization and prepare the balance sheet of Mada Ltd. immediately after the reorganization entries have been made.