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**University Examinations 2016/2017**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION

 **BFA 5225: FINANCIAL REPORTING**

 **DATE: DECEMBER 2016 TIME: 3HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***three*** *questions*

**QUESTION ONE (30 MARKS)**

1. In accordance with IAS 27 ,explain circumstances in which a company can achieve control with a share holding of less than 50% in the subsidiary company (5marks)
2. Discuss the multi company structures (5marks)
3. List the circumstances under which a subsidiary should be excluded from the consolidated financial statement (5marks)
4. The following balances were extracted from the books of P ltd. C ltd. And O ltd. As at 31 March 2014

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**P Ltd. C Ltd. O Ltd.**

**Sh.’000’ Sh.’000’ Sh.’000’**

**Equity and liabilities:**

Authorized and issued share capital:

Ordinary shares of sh.20 par value fully paid 28,000 12,000 4,000

6% cumulative preference shares of sh. 20 par value fully paid 3,000

Profit and loss accounts 10,460 6,300 1,050

5% debentures 1,600

Provision for depreciation of fixed assets 9,600 5,400 1,600

Debentures interest accrued 80

Proposed dividends 3,360 1,300

Creditors 9,140 3,960 2,550

 60,560 33,740 9,200

**Additional information:**

1. P Ltd acquired the shares of C ltd. Cum dividend on 31 March 2013 and C ltd. Acquired the shares in O ltd. 31 March 2012.
2. The balances on the income statements of C ltd. And O ltd. Comprises:

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**C Ltd. O Ltd.**

**Sh. ‘000’ Sh.’000’**

Balances on 31 march 2012 4,520 490

Net profits to 31 March 1,920 400

 6440 890

Less: provision for proposed dividends (2013) 1,140 -

Balances on march 2013 5,300 890

Net profit to 31 march 2014 2,400 160

 7,700 1,050

Les provision for proposed dividends (2014) 1,380 -

 6,320 1,050

1. The proposed dividends for the year ended 31 March 2013 were subsequently paid by C Ltd. P Ltd ‘s shares of the dividends is included in its income statement.
2. No entries have made in the books of P Ltd in respect of the debenture interest due from C Ltd. Or for the holding company’s share of the proposed dividends in C Ltd for the year ended 31 march 2014
3. Proposed dividends are inclusive of preference dividends

**Required:**

P Ltd group balance sheet as at 2014 (15marks)

**QUESTION TWO**

1. Discuss the procedure of formulating international accounting standards (IAS) and international financial reporting standards (IFRS) (5marks)
2. Explain the advantages of accounting standards (5marks)

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**QUESTION THREE**

Maua ltd makes its accounts each year 31 October 31 and has been trading at a loss. On 31 October 2014 a resolution for a voluntary liquidation was passed. The balance sheet as at that date was as follows.

**Sh. ‘000’ Sh.’000’ Sh. ‘000’**

**Noncurrent assets**

Freehold property 11,000

Plant and machinery 2,750

 13,750

**Current assets:**

Stock 8,750

Debtors 13,375

Cash 125

 22,250

**Current liabilities:**

Bank overdraft 3,750

Creditors 11,250

Interest payable (5% debentures) 500 (15,500) 6,750

 20,500

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Paid up capital:

10,000 10% cumulative preference shares of sh. 500 each 5,000

fully paid 12,500

25,000 ordinary shares of sh. 500 each fully paid 2,500

10,000 ordinary shares of sh. 500 each sh. 250 paid 20,000

Revenue reserves: profit and loss account (9,500)

Non current liabilities: 10,000

5% debentures 20,500

**Additional information:**

1. The debentures are secured by a floating charge on the asset and undertaking of the company.
2. The bank overdraft is secured by a fixed charge on the company’s freehold property
3. The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of sh 500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.
4. The creditors:

**Sh. ‘000’**

 Directors fees for one year 1,000

 Rates for six months to 31 October 2014 125

 Manager’s salary for October 2014 175

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 Wages for 15 employees 50

 50

 Pay as you earn (PAYE) 325

1. The assets realized the following amounts:

Freehold property 12,500

Plant and machinery 2,000

Stock 6,250

Debtors 12,250

1. The expenses of liquidation amount to sh. 125,000 and the liquidator’s remuneration was fixed at sh. 500,000

**Required:**

The liquidator’s statement of account showing in order priority, the payments made and the computation of any calls to be made. (10marks)

**QUESTION FOUR**

1. Explain the following terms as used in bankruptcy
* Small bankruptcies
* Doctrine of reputed ownership
* Doctrine of relation back
* Adjudication order
* Land lord right of distress (5marks)
1. ABC limited gained control of XYZ limited in 2013. It acquired 60% of the share holdings as follows:

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|  |  |
| --- | --- |
| January 2011 | 25% |
| January 2012 | 20% |
| January 2013 | 15% |
|  | 60% |

The profit/reserves of XYZ limited were as follows:

|  |  |
| --- | --- |
| 31 December 2010 | 3,000,000 |
| 31 December 2011 | 9,000,000 |
| 31 December 2012 | 12,000,000 |
| 31 December 2013 | 14,600,000 |

**Required:**

1. Compute the minority interest, post-acquisition profit and pre-acquisition profit using the conventional method and step by step approach (5marks)

**QUESTION FIVE**

The consolidation financial statements for Hipa group for the year ended 30 September 2015 together with the comparative balance sheet for the year 30 September 2014 are shown below

**Consolidated income statement for the year ended 30 September 2015**

**Sh. ‘million’ Sh.’million’**

Sales 3,820

Cost of sales (2,620)

Gross profit 1,200

Operating expenses 300 -

Finance costs 30 (330)

Profit before tax 870

Share of profit after tax of associate company 20

 890

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Income tax expense (270)

Profit for the period 620

Attributable to holding company 580

Attributable to minority interest 40

 620

Consolidated balance sheet as at 30 September:

2015 2014

**Non current assets:** Sh.’ Milion’ Sh.’million’ Sh.’million’ Sh.’million’

Property, plant and equipment 1,890 1,830

Intangible assets 650 300

Investment in associate company 95 80

 2,635 2,210

**Current Assets:**

Inventory 1,420 940

Accounts receivable 990 680

Cash 70 2,480 - 1,620

 5,115 3,830

**Equity and liabilities:**

**Capital and reserves:**

Ordinary shares (sh.10 each) 750 500

**Reserves:**

Share premium 350 100

Revaluation reserves 140 -

Retained profits 1,570 2,060 1,380 1,480

Shareholders’ funds 2,810 1,980

Minority interest 135 100

**Non –current liabilities:**

10% debentures 300 100

Bank loan 260 300

Deferred tax 310 870 140 540

Accounts payable 875 730

Bank overdraft - 115

Accrued loan interest 15 5

Proposed dividend 280 200

Current tax 130 1,300 160 1,210

 5,115 3,830

**Additional information:**

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1. The cost of sales includes depreciation of property plant and equipment amounting to sh.320 million and a loss on sale of plant of sh. 50 million.
2. Intangible assets comprise:

2015 2014

Sh. ‘Million’ Sh. ‘million’

Goodwill 180 200

Others 470 100

1. 300

Included in the amount above were tangible assets acquired during the year ended 30 September 2015 for sh. 500 million

1. During the year ended 30 September 2015, holding company acquired a new plant which cost sh.250 million. The company also revalued its building by sh.200 million
2. On 1 October 2014 the holding company made a bonus issue of 1 share for every 10 shares held. The issue was financed through the revaluation reserve

 5. The detailed analysis of the retained profits was as follows:

2015 2014

Sh. Million sh. Million

Balance brought forward 1,380 1,200

Profit for the year 580 480

 1,960 1,680

Transfer from revaluation reserves 10 -

Dividend paid and proposed (400) (300)

Balance carried forward 1,570 1,380

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**Required:**

Group cash flow statement for the year ended 30 September 2015, using the indirect method in conformity with international accounting standard (IAS 7) (10 marks)

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