

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS 2013/2014 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 403**

**COURSE TITLE: ADVANCED ACCOUNTING II**

**DATE:15TH APRIL 2014 TIME: 2.00PM – 5.00PM**

**INSTRUCTIONS TO CANDIDATES**

**SECTION A** is compulsory

Answer any three questions in **SECTION B**

***This paper consists of 5 printed pages. Please turn over.***

QUESTION ONE 25 MARKS COMPULSORY

Dreamland Ltd, which had experienced trading difficulties, decided to reorganize its finances. On 31 December 2013 a final trial balance extracted from books showed the following position:

Share capital, authorized and issued; £ £

150,000 6% cumulative preference shares of £1 each 150,000

200,000 ordinary shares of £1 each 200,000

Share premium account 40,000

Retained profits 114,375

Preliminary expenses 7,250

Goodwill (at cost) 55,000

Trade accounts payable 43,500

Account receivable 31,200

Bank overdraft 51,000

Leasehold property (at cost ) 80,000

(provision for depreciation) 30,000

Plant and machinery (at cost) 210,000

(provision for depreciation) 62,500

Inventory 79,175

577,000 577,000

Approval of the court was obtained for the following scheme for reduction of capital:

1. The preference shares to be reduced to £0.75 per share.
2. The ordinary shares to be reduced to £0.125 per share.
3. One £0.125 ordinary share to be issued for each £1 of gross preference dividend arrears; the preference dividend had not been paid for three years.
4. The balance on share premium account to be utilized.
5. Plant and machinery to be written down to £75,000.
6. The retained profits and all intangible assets, to be written off.

At the same time as the resolution to reduce capital was passed, another resolution was approved restoring the total authorized capital to £350,000, consisting of 150,000 6% cumulative preference shares of £0.75 each and the balance in ordinary shares of £0.125 each. As soon as the above resolutions had been passed, 500,000 ordinary shares were issued at par, for cash, payable in full upon application.

You are required:

1. To show the journal entries necessary to record the above transactions in the company’s books; and ( 18 Marks)
2. To prepare a balance sheet of the company, after completion of the scheme. (7 Marks)

QUESTION TWO

Grider Company's condensed income statement is presented below:

Revenues $2,000,000

Expenses

Cost of goods sold $800,000

Operating and administrative expenses 400,000

Depreciation expense 80,000 1,280,000

Income before taxes 720,000

Income tax expenses 216,000

Net income $ 504,000

Earnings per share (100,000 shares) $5.04

The following data is compiled relative to Grider's operating segments:

Percent Identified with Segment

Hotels Grains Candy

Revenues 42% 50% 8%

Cost of goods sold 48 49 3

Operating and administrative expense 35 50 15

Depreciation expense 46 42 12

Included in the amounts allocated to each segment on the above percentages are the following expenses which relate to general corporate activities:

Operating Segment

Hotels Grains Candy Totals

Operating and administrative expense $24,000 $18,000 $6,000 $48,000

Depreciation expense 3,500 4,000 2,500 10,000

**Required;**

(a) Prepare a schedule showing the amounts distributed to each segment. ( 10 Marks)

(b) Based only on the above information, which segments must be reported and why?

(5 Marks)

QUESTION THREE

Explain clearly each of the following as regards Social Accounting;

1. Measurement of Social Progress **( 5 Marks)**
2. Social Auditing and basis of its measurement **( 5 Marks)**
3. Human Resource Accounting  **( 5 Marks)**

QUESTION FOUR

The following are the summary accounts of Overseas Ltd, in foreign currency (Limas):

Statement of Financial Position as at 31 December 2009

Limas

Ordinary share capital 630,000

Retained profits 80,000

710,000

Plant and machinery, at cost 700,000

Less: Depreciation 70,000

630,000

Stocks, at cost 210,000

Net monetary current assets 40,000

880,000

Less: Long-term loan 170,000

710,000

Profit and loss account, year to 31 December 2009

Limas

Sales 900,000

Less: Depreciation 70,000

Other operating expenses 750,000

820,000

Net profit before taxation and appropriation 80,000

During the year, relevant exchange rates were:

Limas

£1

1 January 2009 14

Average for the year 12

Average at the acquisition of closing stock 11

31 December 2009 10

Your UK Company, Sterling Ltd, had acquired overseas Ltd, on January 2009 by subscribing £45,000 share capital in cash when the exchange rate was 14 Limas to the £1. The long term loan had been raised locally on the same data. On that day, overseas Ltd had purchased the plant and equipment for 700,000 Limas. It is being depreciated by the straight line method over 10 years.

Required:

Prepare the balance sheet and profit and loss account of overseas Ltd, in columnar form, in £s sterling, using:

1. The closing rate method, and **(8 Marks)**
2. The temporal method, and  **(7 Marks)**

QUESTION FIVE

1. Explain each of the Limitations of Historical Cost Accounting ( 5 Marks)

The balance sheet for Cremore Ltd at 31 December is given below (£000):

2003 2002

Plant and equipment

Cost 800 800

Depreciation (320) (160)

480 640

Current assets

Inventory 210 130

Accounts receivable 100 60

Cash 145 455 50 240

935 880

Current liabilities

Trade accounts payable 80 60

Non-current liabilities

10% loan notes 200 200

(280) (260)

655 620

Financed by:

Ordinary shares 250 250

Reserves 370 340

Current cost reserve 35 30

655 620

Required:

Using the above information, calculate the gearing adjustment percentage:

L

L + S **(15 Marks)**

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