

MAASAI MARA UNIVERSITY

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

**THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 301**

**COURSE TITLE: ADVANCED FINANCIAL                                 ACCOUNTING**

**DATE:23RD APRIL 2014 TIME: 9.00AM – 12.00PM**

**INSTRUCTIONS TO CANDIDATES**

Question **ONE** is compulsory

Answer any other **THREE** questions

***This paper consists of 6 printed pages. Please turn over.***

**QUESTION ONE**

1. Explain four advantages of business combinations (amalgamation) **(5mks)**
2. Briefly explain the methods of consolidation of financial statements**. (5mks)**
3. Elaborate the concept and forms of price level changes. **(5mks)**
4. Explain the factors that cause distortions to accounting profit vis-à-vis financial statement. **(5mks)**
5. Discuss the advantages of value added statements. **(5mks)**

**QUESTION TWO**

S. Kenya Ltd acquired 90% of the equity share capital of Kings ltd of Japan on 1st April, 2004 for a consideration of Kshs.90, 000. Balance sheets of the two companies as on 31st march, 2005 were as follows:-

S. Kenya Ltd

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Shs.** | **Assets** | **Shs.** |
| Equity shares of shs.10 each  Reserves  Creditors  Payables  Total | 575,000  750,000  225,000  150,000  **1,700,000** | Land and buildings  Plant and machinery  Investment in kings ltd  Debtors  Receivables  Total | 500,000  700,000  90,000  205,000  205,000  **1,700,000** |

Kings Ltd

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Shs.** | **Assets** | **Shs.** |
| Equity shares of shs.10 each  Reserves (including Rs.20,000 as on 01.04.2004)  Creditors  Payables  Total | 100,000  80,000  60,000  40,000  **280,000** | Land and buildings  Plant and machinery  Debtors  Receivables  Total | 100,000  75,000  80,000  25,000  **280,000** |

**Required:**

Prepare a consolidated balance sheet as it would appear under the gross consolidation approach. **(11 mks)**

**QUESTION THREE**

The balance sheet of Simplex Ltd as on 31st March, 2004 was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Shs.** | **Assets** | **Shs.** |
| Equity share capital (10,000 shares of shs.10 each)  Preference share capital  (50,000 shares of shs.10 each)  Reserves and surpluses  Long term borrowings  Creditors  Bills payable  Outstanding expenses  Total | 100,000  500,000  175,000  225,000  150,000  80,000  30,000  **1,260,000** | Goodwill  Land and building (net of depreciation)  Plant and machinery  Less: Depreciation  Furniture and fittings  Less: depreciation  Stock  Debtors  Bills receivables  Cash  Total | 30,000  400,00  300,000  150,000  80,000  170,000  70,000  60,000  **1,260,000** |

What is the purchasing power gains or losses on monetary items of the company, given that the general price index as on 31.03.2004 is 185 as against 145 as the general price index as on 31.03.2003, the date when fixed assets and liabilities were acquired? **(15mks)**

**QUESTION FOUR**

The following information is extracted from the books of Super Sales Ltd. For the year ended 31st December 2004.

|  |  |
| --- | --- |
|  | **Shs.000’** |
| Salaries, wages and pension contributions | 250,000 |
| Purchased material used in production | 450, 000 |
| Depreciation of fixed assests | 35,000 |
| Sales to customers | 1,265,000 |
| Corporation tax | 40,000 |
| Proposed dividend | 25,000 |
| Surplus on disposal of fixed assests and investments | 8,000 |
| Loan interest paid | 19,000 |
| Excise duty | 390,000 |
| Social security contributions | 20,000 |

**Required:**

Prepare value added statement for the year ended 31st December 2004. **(15mks)**

**QUESTION FIVE**

Black & Ball Ltd acquired 50% of the shareholding of James Ltd on 1st January 2002. On that date the reserves of James Ltd stood at kshs.3, 000,000. The financial statements as at 31st December 2003 are:

**Profit and Loss Account**

|  |  |  |
| --- | --- | --- |
|  | **Black & Ball Ltd** | **James Ltd** |
|  | **Ksh. ‘000’** | **Kshs. ‘000’** |
| Sales | 20,000 | 15,000 |
| Cost of sales | (10,000) | (8,000) |
| Gross profit | **10,000** | **7,000** |
| Expenses | (3,000) | (2,500) |
| Net profit | **7,000** | **4,500** |
| Tax | (2,000) | (1,500) |
| Profit after tax | 5,000 | 3,000 |
| Dividends | (1,000) | (1,000) |
| Retained profits | 4,000 | 2,000 |
|  |  |  |
| **Balance Sheet** | | |
|  | **Black & Ball Ltd** | **James Ltd** |
|  | **Ksh. ‘000’** | **Kshs. ‘000’** |
| Fixed assets | 10,000 | 8,000 |
| Investment in James Ltd | 4,000 | ­- |
| Stock | 3,000 | 2,000 |
| Debtors | 2,000 | 1,000 |
| Cash | 1,000 | 500 |
|  | **6,000** | **3,500** |
| Creditors | 1,000 | 1,000 |
| Dividends | 1,000 | 1,000 |
| Tax | 1,000 | 500 |
|  | **3,000** | **2,500** |
| Net assets | 17,000 | 9,000 |
|  |  |  |
| **Financed by:** |  |  |
| Share capital | 10,000 | 3,000 |
| Reserves | 7,000 | 6,000 |
|  | **17,000** | **9,000** |

**Additional information**

1. Black & Ball Ltd does not accrue dividends receivable from James Ltd.
2. Goodwill is tested fro impairement and is found to have lost kshs.200, 000 for each of the years to 31/1/2003.
3. Directors of Black & Ball Ltd have decided to use the proportional method of consolidation.

**Required:**

Prepare the consolidated profit and loss account for the year ended 31st December 2003. **(15mks)**

**…………………………………………….END………………………………………………………..**