

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………………………………………………………..**