MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION (ACCOUNTING OPION) WITH INFORMATION TECHNOLOGY

MAIN CAMPUS

ABA 415: ADVANCED FINANCIAL ACCOUNTING II

Date: 26th July, 2017 | Time: 8.30 - 11.30am

INSTRUCTIONS:

- Answer ANY FOUR Questions
- All questions carry equal marks
- Show all workings for full award of marks
- Begin each question on a fresh page

Question One

The following information has been extracted from the books of Bullion Company limited as at 30th June, 2013:

ITEM	SHS	SHS
Administration expenses	242,000	
Cash at Bank and in Hand	157,000	
Corporate tax (Over provision for previous year)		10,000
Deferred taxation		60,000
Depreciation on fixtures, fittings, tools and Equipment (1.7.2012)		132,000
Cash received on sale of fittings		2,000
Distribution costs	55,000	
Factory closure costs	30,000	
Fixtures, fittings, tools and equipment, at cost	340,000	
Profit and Loss account (1st July, 2012)		40,000
Purchase of equipment	60,000	
Purchases for resale	855,000	
Sales (Net of VAT)		1,500,000
Share capital: 500,000 Authorised, issued and fully paid shares of shs 1 each		500,000
Stock (1st July, 2012)	70,000	
Trade creditors		64,000
Trade debtors	500,000	
	2,309,000	2,309,000

Other information:

1) The company was incorporated in 2006
2) The stock at 30th June,2013 (valued at lower of cost or net realizable value) was estimated to be worth shs 100,000
3) Fixtures, fittings, tools and equipment are all related to administrative expenses. Depreciation is charged on them at the rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
4) During the year to 30th June, 2013, the company purchased shs 60,000 worth of equipment. It also sold some fittings (original cost shs 20,000) for shs 3,000 and for which depreciation of shs 15,000 had been set aside
5) The corporation tax based on the profits for the year at a rate of 35% is estimated to shs 100,000. A transfer of shs 40,000 is to be made to the deferred taxation account
6) The company proposes to pay a dividend of 20 cents per ordinary share.
7) The standard rate of income tax is 30%.

Required

Insofar as the information permits, prepare Bullion Company's profit and loss account for the year ending 30th June, 2013, and a balance sheet as at that date in accordance with the companies act and appropriate accounting standards.

Question Two

Winmart limited acquired *Shopmart* limited on 31st March, 2016. The balance sheet of *Shopmart* limited as on that date was as below:

LIABILITIES	KShs	ASSETS	KShs
Share capital: Fully paid		Goodwill	1,000,000
Shares of shs 10 each	6,000,000	Land and Buildings	2,300,000
General reserve	1,700,000	Plant and Machinery	4,100,000
Profit and Loss a/c	1,100,000	Stock-in-trade	1,680,000
12% Debentures	1,000,000	Debtors	360,000
Creditors	200,000	Bank	560,000
	10,000,000		**10,000,000**

Winmart agreed to pay as follows:

1) A cash payment equivalent to shs 2.50 for every shs 10 held in *Shopmart* limited.

2) The issue of 900,000 equity shares, fully paid in *Winmart* Limited having an agreed value of shs 15 per share

3) The issue of such an amount of fully paid 14%debentures of *Winmart* Limited at 96% as is sufficient to discharge the 12% debentures of *Shopmart* Limited at a premium of 20%.

4) The Directors of *Winmart* Limited have valued the assets of *Shopmart* Limited as below:

Land and Buildings	Shs 7,500,000
Plant and Machinery	Shs 4,500,000
Stock-in-trade	Shs 1,420,000

The trade debtors are subject to an allowance of 5% to cover doubtful debts
The cost of liquidation came to shs 50,000

Required:
Journal entries as they would appear in the books of *Winmart* Limited.
Ledger accounts to close the books (Major ones only)

Question Three

On 1st. April, 2015, "A" limited and "B" limited amalgamated to form "AB" company limited. Their balance sheets were as below just before the exercise:

Assets	**"A" ltd** (Shs)	**"B" ltd** (Shs)
Fixed assets	4,800,000	3,200,000
Less: Depreciation	800,000	600,000
	4,000,000	**2,600,000**
Investments	1,600,000	600,000
Current assets:		
Stock	1,200,000	600,000
Debtors	1,600,000	800,000
Cash and Bank balance	1,200,000	600,000
	9,600,000	**5,200,000**
Equity and Liabilities:		
Share capital:		
Equity Shares of Shs 10 each	2,400,000	1,600,000
12% Preference Shares	1,200,000	800,000
Reserves and Surpluses:		
Capital reserve	800,000	600,000
General reserve	1,200,000	600,000
Profit and Loss a/c	400,000	200,000
Secured loans	1,600,000	800,000
Trade creditors	1,200,000	400,000
Tax provision	800,000	200,000
	9,600,000	**5,200,000**

The preference shareholders of the two companies are issued equivalent number of 15% preference shares of 'AB' Limited at an issue price of shs 125 per share.

AB limited will issue one (1) equity share of shs 10 each for every share of 'A' limited and 'B' limited. The shares are issued at a premium of shs 5 per share.

Required

Balance sheet of 'AB' limited assuming that the amalgamation is in the nature of a Merger

Question Four

The Balance Sheets of P Ltd and S Ltd on 30.6.2014 were as below:

	P	S		PS	
Capital: Shares			Goodwill	1,000,000	500,000
of shs.100 each	10,000,000	2,500,000	Buildings	2,000,000	1,000000
General Reserve (1.7.13)	2,000,000	800,000	Machinery	5,000,000	2,000000
Creditors	2,000,000	1,000,000	Stock	2,000,000	1,000000
Bills Payable	5,000,000	300,000	Debtors	3,400,000	700,000
P/L A/c (1.7.13)	600,000	600,000	Investments	2,400,000	-
P/L a/c (30.6.14)	1,500,000	500,000	B/Receivable	300,000	300,000
	-	-	cash at bank	500,000	200,000
	16,600,000	**5,700,000**		**16,600,000**	**5,700,000**

P Ltd acquired 15,000 shares if S Ltd for Shs.1, 900,000 on 1st July. 2013

Debtors of P Ltd include Kshs.300, 000 due from S Ltd.

Bills receivable of S Ltd include shs.100, 000 due from P Ltd

The stock of S Ltd includes goods purchased from P Ltd at Kshs.100, 000 which includes profit charged by P Ltd at 25% on cost.

P Ltd and S Ltd have proposed 10% dividend for the year 2013/2014, but effect has not been given in accounts.

Required:

Prepare consolidated balance sheet of P Ltd and its subsidiary S Ltd as on 30:6:2014.

Question Five

Classical Limited was incorporated on 1st April to take over the Business of ***Pepa Partners*** as from 1st January, 2014. It was agreed that all profits made from 1st January should belong to ***Classical Limited*** and that the vendors be entitled to interest on the purchase price from 1st April to the date of payment. The purchase price was paid on 30th June 2014 including Kshs.33, 000 Interest.

The Profit and Loss Account of the Company for the year ended 31st December, 2014 gives the following information.

Gross profit b/d			Kshs	560,000
General expenses	Kshs	172,800.		
Rent and Rates		17,200		
Distribution Expenses		33,600		
Commission on Sales		14,000		
Bad debts		6,280		
Interest paid to vendors		33,000		
Salaries to Vendors		33,900		
Directors remuneration		80,000		
Directors expenses		10,300		
Motor vehicles	38,000			
Machinery	11500	49,500		
Bank interest		3,360		
Net Profit		106,060		
		560,000		**560,000**

Sales amounted to Kshs.400, 000 for the 3 months to 31st march 2014 and Kshs.1, 000,000 for the 9 months ending 30th September, 2014. Gross profit is at a uniform rate of 40% on selling price throughout the year, and commission at the rate of 1% paid on all sales

- Salaries of Kshs.33, 920 were paid to the vendors for their assistance in running the business up to the time of incorporation.
- The bad debts written off are;
  - A debt of Kshs.2080 taken over from the vendors.
  - A debt of Kshs.4200 in respect of goods sold in September 2014.
- On 1st January, 2014 Motor vehicles were bought at Kshs.140, 000 and Machinery Kshs.100, 000. On 1st April 2014 another motor vehicle was bought for Kshs.60, 000 and on 1st September 2014 another machinery costing Kshs.60, 000 was added.

Depreciation on Motor vehicle is at 20% and on Machinery at 10% p.a

1. Wages and general expenses and rent and rates accrued at an even rate throughout the year
2. The bank granted an overdraft in June 2014

Assuming that calendar months are of equal length:

Show profit and loss account in columnar form distinguishing the Pre and Post incorporation profits.

Question Six

The Balance Sheet of Finer Business Ltd on 30:6:13was as below:

Balance Sheet

Authorized capital:		**Fixed Assets**	
150,000 7% pref. shares		Goodwill and Trademarks	2,250,000
of Kshs.10 each	1,500,000	Plant and Machinery (B.V)	2,148,000
2,100,000 shares of shs5 each	10,500,000	Furniture and Fittings (B.V)	126,000
			4,524,000
Issued capital 152,000 7 %			
Pref. shares of shs10 each fully paid	1,500,000	**Current Assets**	
1,200,000 ordinary shares of		Stock in trade	1,708,500
Shs 5 each	6,000,000		
	7,500,000	Debtors	651,000
Capital Reserve	480,000	Cash in hand	1,500
Profit and Loss A/c	(1,839,000)		
Current Liabilities			
Sundry creditors	318,000		
Bank overdraft	426,000		
	6,885,000		**6,885,000**

The following scheme was sanctioned by the court and accepted by the shareholders:

- Preference shares were to be reduced to Kshs.7.50
- Ordinary shares were to be reduced to Kshs.2
- Capital reserve was to be eliminated
- The reduced shares of both classes were to be consolidated into new ordinary shares of Kshs.10 each
- An issue of 1,500,000 8 % debentures at par was to be made to provide fresh working capital.
- The sum written off the issued capital of the company and the capital reserve to be used to write off the debit balance of profit and loss account and reduce fixed assets by the following amounts;-

Goodwill and Trademarks	Kshs	2,100,000
Plant and Machinery	Kshs.	450,000
Furniture and fittings	Kshs	66,000

- The bank overdraft was to be paid off out of the proceeds of the debentures which were daily issued and paid in full.

Required:

Journal entries to realise the reconstruction scheme

Balance Sheet of the company after the reconstruction exercise