

**(University of Choice)**

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**(MMUST)**

**MAIN/BUNGOMA/NAIROBI/WEBUYE CAMPUS**

**UNIVERSITY EXAMINATIONS**

**2018/2019 ACADEMIC YEAR**

**SUPPLEMENTARY/SPECIAL EXAM**

 **FOURTH YEAR SEMESTER ONE EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: BCA 404**

**COURSE TITLE:**  **COMPANY ACCOUNTS**

**DATE: Tuesday, 24th September 2019** **TIME: 8.00 AM- 10.00AM**

**INSTRUCTIONS TO CANDIDATES**

Answer question **ONE** and any other **TWO (2)** questions

TIME: **2 HOURS**

MMUST observes ZERO tolerance to examination cheating

This paper consists of 4 printed pages. Please Turn Over.

**QUESTION ONE**

1. A ltd acquired 80% of ordinary share capital for sh. 560 million and 30% preference share capital in B ltd for sh. 20 million on 1st July 2018. B ltd acquired 65% ordinary share capital in D ltd for sh. 47 million on 1st January 2011. The financial year ends on 20th September 2018. Required;
2. Determine the effective control in D ltd by A ltd **(2 marks)**
3. Determine the percentage of ownership in D ltd by both direct and indirect minority interest. (3 marks)
4. Giving explanation, determine the effective date for the consolidation of the financial statements by A limited (**2marks)**
5. Briefly explain the equity method of accounting as used in accounting for associated and joint ventures (**8 marks)**
6. Define General purpose financial statement and discuss the information contained there-in as provided for by 1AS 1 ( **6 marks)**
7. Briefly explain instances where a parent company is exempted from consolidating its financial statements with those of the subsidiary **( 6 marks)**
8. Briefly state and explain the scope of the Conceptual Framework (**3 marks)**

**QUESTION TWO**

1. K ltd acquired 805 ordinary share capital in S ltd on 1st January 2018. For the year ended 31st December 2018, K ltd’s accountant extracted the following balances from the companies statements of financial position;

K ltd S ltd

Sh Sh

Accounts payable 80,000 30,000

Accounts receivable 80,000 50,000

Inventory 60,000 40,000

Cash 25,000 (10,000)

Included in the accounts payable of K ltd is an amount of sh 25,000 due to Q. This amount stood at sh 28,000 in the books of Q ltd. The difference was due to the following items;

1. Cash sent by K ltd to Q ltd sh 1000
2. Goods sent to K ltd by Q ltd but not yet receives by K ltd. Selling price to K ltd was sh 1200. Q ltd reported a profit of 50% on cost.
3. Administration fees of sh 800 charged by K ltd to Q ltd but not yet recorded by Q ltd

Required: prepare the following accounts and show the balance that would be reflected in the consolidated statement of financial position as at 31st Dec 2018;

1. Group accounts payable and accounts receivable
2. Group inventory account
3. Group cash account
4. Briefly explain five reasons why a company may not opt to acquire a subsidiary and operate as a group ( 10 marks)

**QUESTION THREE**

1. From the following balance sheet of Haki ltd and Ukweli ltd, prepare consolidated statement of financial position

Haki ltd (Ksh) Ukweli ltd (Ksh)

Non-current assets

Land and buildings 1400000 1000000

Machinery 1600,000 500,000

Fixtures &fittings 200,000 100,000

Investment in shares of Ukweli ltd 1800,000

( 60,000 shares)

Inventory 600,000 400,000

Accounts receivable 500,000 500,000

Bank 100,000 300,000

Ordinary shares ( sh 40 each) 4000,000 1600,000

General reserve 600,000 400,000

P&L account 900,000 500,000

Accounts payable 700,000 300,000

Ukweli ltd reserve and P&L account balances were sh 320,000 and sh 400,000 as at the date of acquisition **(14 marks)**

1. Briefly describe three most recent trends in the International Financial Reporting Standards (IFRS’) (**6 marks)**

**QUESTION FOUR**

**a.** K Limited purchased 80% of the ordinary share capital of S Limited on 31st January 2018 for sh. 496 million. Profits in both companies are deemed to accrue evenly over the year.

The income statement for the two companies for the year ended 30th April 2018 for sh.496 million. Profits in both companies are shown below, (figures are in millions):

 K Ltd S Ltd

Sales Sh Sh

Cost of sales 2,346 2,400

Gross profit (1,564) (1,620)

 782 780

Distribution cost (310) (400)

Admin expenses (240) (200)

Profit from operation 232 180

Interest on debentures (42) =

Profit before tax 190 180

Taxation (72) (40)

Profit after taxation 118 140

Dividends proposed 63 40

Retained profits

For the year 55 100

 Brought forward 120 190

 Carried forward 175 290

Required: consolidated income statement of K ltd and its subsidiary for the year ended 30th April 2018.(10mks)

b. X ltd acquired 80% shares in Z ltd on 1st January 2018. For the year 2018, income statement extract was as follows.

 X ltd Z ltd

Sales Sh millions sh millions

Cost of sales: 67 40

 Opening stock 3 2.4

 Purchases 37 20

 Closing stock 5 (45) 2.2 (20.20)

 Gross profit 22 19.8

During the year , X ltd goods worth 20 million. Goods worth sh1 million remained unsold as at the end of the year. X ltd made a profit of 20% on selling price.

Required:

From the above information prepare a consolidated income statement extract for X ltd and its subsidiary for the year ended 31st December 2018 (10mks)