



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2019/2019 ACADEMIC YEAR
FOURTH YEAR FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS
THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

COURSE CODE: BBM 403

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING II

DATE: 29/04/2019

TIME: 1430 - 1630 HRS

INSTRUCTIONS

Answer all questions in Section A and **ANY OTHER THREE** in section B

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

Section A

Question One

(a) The Statement of Financial Position and Income Statement of Tan Ltd.

A subsidiary of Yala Ltd. are given below:

Balance sheet at 30 September 2018:

	Tan Tsh. Million
Fixed assets at cost	500
Accumulated Depreciation	<u>(200)</u>
	300
Stock	200
Debtors	<u>100</u>
	<u>600</u>
Ordinary capital	100
Retained profit	<u>280</u>
Shareholders' funds	380
Loans	110
Creditors, Tax and other liabilities	<u>110</u>
	<u>600</u>

Income Statement for the year ended

30 September 2018:

Profit before tax	160
Taxation	<u>(80)</u>
Profit after taxation	<u>80</u>

Additional information:

- i. Yala Ltd. acquired its interest in Tan Ltd. since the incorporation of the latter at Ksh. 25 million.
- ii. Depreciation is charged at 10% per annum on cost
- iii. There was no loan repayments or movements in Non Current assets during the year. Opening Stock of Tan Ltd. was Tsh. 120 million.
(Assume stock turnover times are very short).

- iv. Exchange rates: 4 Tsh .to 1 k. sh . when Tan was incorporated
 - : 2.5 Tsh .to 1 ksh. When tan acquired its fixed assets.
 - : 2 Tsh .to 1 k .sh at 30 September 2017
 - :1.6 T .sh . average rate of exchange year ending 30. 9. 2018
 - :1 Tsh .to 1 k.sh on 30 September 2018

Required:

Translate the financial statements of Tan Ltd .for the year ended 30 September 2018 from Tsh to Ksh. using Temporal Method of translation.

(13 Marks)

(b) Explain each of the objectives and Limitations of a Value Added Statement (VAS) **(8 Marks)**

(c) Explain the Limitations of Segmental Reporting. **(4 Marks)**

Question Two

On 31st March 2019, the following was the balance sheet of Quality Yarns ltd

Balance sheet

	Ksh	Ksh
Non-current assets		
Goodwill and trademarks as valued	280,000	
Plant and machinery(at cost less depreciation)	320,000	
Furniture and fittings(at cost less depreciation)	<u>8400</u>	
		608,400
<i>Current Assets</i>		
Inventory	190,200	
Sundry accounts receivable	74,600	
Cash	<u>300</u>	
		<u>265,100</u>
Total assets		873,500
<i>Current liabilities</i>		
Sundry accounts payable	33,200	
Bank overdraft	<u>44,400</u>	
		<u>(77,600)</u>
Net assets		<u>795,900</u>

Equity

Authorized capital

200,000 6% preference shares of Ksh 1 each	200,000
3 million ordinary shares of 50cents each	<u>1,500,000</u>
	<u>1,700,000</u>

Issued and fully paid capital

100,000 6% preference shares of Ksh 1 each	100,000
1,750,000 ordinary shares of 50 cents each	<u>875,000</u>
	975,000
Capital reserve	60,000
Less :retained profits	<u>(239,100)</u>
	<u>975,900</u>

The following scheme of capital reduction was sanctioned by the court and agreed by the shareholders:

- a) Preference shares were to be reduced to 80cents each.
- b) Ordinary shares were to be reduced to 25cents each.
- c) The capital reserve was to be eliminated.
- d) The reduced shares of both classes were to consolidated into new ordinary shares of Ksh 1 each.
- e) An issue of Ksh 300,000 5% loan notes at par was to be made to provide fresh working capital.
- f) The sum written off the issued capital of the company and the capital reserve to be used to write off the debit balance of retained profits and to reduce non-current assets by the following amounts:

Ksh

Goodwill and Trade Marks	250,000
Plant and Machinery	22,200
Furniture and Fittings	4,400

- g) The bank overdraft was to be paid off out of the proceeds of the loan notes which were duly issued and paid in full.

A further resolution was passed to reduce the authorized capital of the company to 1,750,000 ordinary shares of Ksh 1 each.

Required:

- (a) Prepare journal entries (cash transactions to be journalized) to give effect to the above scheme and **(8 Marks)**
- (b) Draw up the Statement of Financial Position of the company after completion of the scheme. **(7 Marks)**

Question Three

Jensen Company on January 1st 2014, entered into a five-year non-cancelable lease, with four renewal options of one year each, for equipment having an estimated useful life of 10 years and a fair value to the lessor, Loeb Corp., at the inception of the lease of Ksh 9,000,000. Jensen's incremental borrowing rate is 8%. Jensen uses the straight-line method to depreciate its assets. The lease contains the following provisions:

1. Rental payments of Ksh 657,000 including Ksh 57,000 for property taxes, payable at the beginning of each six-month period.
2. A termination penalty assuring renewal of the lease for a period of four years after expiration of the initial lease term.
3. An option allowing the lessor to extend the lease one year beyond the last renewal exercise by the lessee
4. A guarantee by Jensen company that Loeb Corp. will realize Ksh 300,000 from selling the asset at the expiration of the lease. However the actual residual value is expected to be Ksh 180,000.

Required:

- a. Describe kind of lease is this to Jensen company **(3 marks)**
- b. Calculate should be considered the lease term. **(2 marks)**
- c. Calculate are the minimum lease payments. **(5 marks)**
- d. Calculate the present value of the minimum lease payments (PV factor for annuity due of 20 semi-annual payments at 8% annual rate, 14.13394; PV factor for amount due in 20 interest periods at 8% annual rate, .45639.)
(Round to nearest Shillings) **(5 marks)**

Question Four

(a) A cash generating unit comprising Factory, Plant and Equipment etc and associated Purchased Goodwill becomes impaired because the product it makes is overtaken by a technologically more advanced model produced by a competitor. The recoverable amount of the cash generating unit falls to Kshs 60m, resulting in an impairment loss of kshs.80m, allocated as follows:

	Carrying Amounts Before impairment Kshs. million	carrying amounts After impairment kshs.million
Goodwill	40	-
Patent(with no market value)	20	-
Tangible long-term assets	80	60
Total	140	60

After three years, the entity makes a technological breakthrough of its own, and the recoverable amount of the cash generating unit decreases to Kshs. 90m. the carrying amount of the tangible long-term assets had the impairment not occurred would have been kshs.70m

Required:

Calculate the reversal of the impairment loss. **(10 Marks)**

(b) As concerns Earnings Per Share(EPS) accounting, Explain the distinction between Simple Capital Structure and Complex Capital Structure. **(5 Marks)**

Question Five

Many organizations are now very concerned about Social Accounting unlike in the 20th century when little attention was given to it. This concern has led to this discipline being taken up by even several Governments as an area of interest.

Required;

- Explain the meaning and main types of Social Accounting **(5 marks)**
- Explain the each of the main objectives of Social Accounting **(5 marks)**
- Explain each of the challenges of Social Accounting **(5 marks)**

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