



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 28th July, 2022
Time: 2.30pm –4.30pm

KAC 400 - ADVANCED FINANCIAL ACCOUNTING PRACTICES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

a) Explain the term `` Company Reconstruction``. (3 Marks)

b) The following is an extract from Sosio Company Ltd as at 31st March 2022.

Liabilities	Shs	Assets	Shs
13% Debentures of shs 100 each	100,000		
Creditors	50,000		

Under the scheme of internal reconstruction, the debenture holders agree to accept new 15% debentures of shs 80,000 in full satisfaction of the claims while the creditors agree to reduce their claims by shs 10,000/=.

You are required to show the relevant journal entries.

(5 Marks)

c) The balance sheet of Trenk Gun Manufacturing Co.Ltd discloses the following financial position as at 31st March 2022:

Liabilities`	Shs	Assets	Shs
Paid-up capital : 30 000 shares of shs 10 each fully paid	300,000	Goodwill at cost	30,000
Capital Reserve	60,000	Land and buildings at cost(Less:depreciation)	175,000
Sundry creditors	71 000	Plant and machinery at cost(Less: Depreciation)	90,000
Provision for taxation	55,000	Stock at cost	115,000
Profit and loss account	26,000	Book debts 98,000	
		Less provision for doubtful debts3,000	95,000
		Cash at Bank	7,000
	512,000		512,000

You are asked to value the goodwill of this company using both Super Profit Method and Capitalization of Profits method given that:

- Adequate provision has been made in the accounts for income-tax and depreciation
 - Rate of income-tax may be taken at 50%
 - The average rate of dividend declared by the company for the past five-years was 15%
 - The reasonable return on capital invested in the class of business done by the company is 12%
- (9 Marks)**

d.) The following is a conventional income statement of ABC Ltd

	Shs	Shs
Sales		20,000,000
Less: Materials consumed	8,000,000	
Wages paid	4,000,000	
Interest paid	2,000,000	
Insurance premium	500,000	
Auditors` fee	300,000	
Rent	200,000	
Depreciation	<u>1,000,000</u>	<u>16,000,000</u>
Profit before tax		4,000,000
Less : Income tax(50%)		<u>2,000,000</u>
Profit after tax		<u>2,000,000</u>
Less : Dividend		<u>1,000,000</u>
Balance representing Retained Earnings		<u>1,000,000</u>

You are required to prepare the Value Added Statement

(9 Marks)

e) State four challenges related to foreign currency translations when preparing annual accounting reports.

(4 Marks)

QUESTION TWO (20 MARKS)

a) Describe some common modes of business combinations.

(8 Marks)

b) Three year bonds are issued at face value of Sh100,000 on Jan. 1, 2017, with a stated interest rate of 8%. Interest is paid annually on Dec. 31.

Required: Calculate the issue price(value) of the bonds, given the market interest rate of 8%..

(9 Marks)

c) State recent statements that are also critical for inclusion in published annual corporate reports

(3 Marks)

QUESTION THREE (20 MARKS)

The following are the summary accounts of Riziki(U) Ltd in foreign currency(U Shillings)

BALANCE SHEET

	U Shillings
Ordinary share capital	8,000,000
Retained profits	<u>800,000</u>
	8,800,000
Plant and Machinery at cost	8,000,000
Depreciation	<u>800,000</u>
	7,200,000
Stock at Cost	2,880,000
Net Monetary Assets	<u>1,120,000</u>
	11,200,000
Less: Long Term Loan	<u>2,400,000</u>
	<u>8,800,000</u>

PROFIT AND LOSS ACCOUNT

Year ended 31st December Year 1

		U Shillings
Sales		7,200,000
Less: Depreciation	800,000	
Other Operating expenses	<u>5,600,000</u>	<u>6,400,000</u>
Net profit before taxation and appropriations		<u>800,000</u>

During the year, relevant exchange rates were:

	U Shillings to Kshs
1 st January, year 1	10
Average for the year	9
Average at the acquisition of closing stock	9
31 st December, year 1	8

Your Kenya company, Riziki(K) Ltd, acquired Riziki(U) Ltd on 1st January, year 1 by subscribing Kenya Shillings, shs 800,000 of share capital in cash when the exchange rate was 10 U Shillings to One Kenya Shilling. The long-term loan was raised locally on the same date. On 1st January, year 1 Riziki (U) Ltd purchased the plant and equipment for 8,000,000 U Shillings. It is being depreciated by the straight line method over 10 years.

You are required to show the balance sheet and profit and loss account of Riziki (U) Ltd in columnar form, in Kenya Shillings, using:

- The closing rate method (10 Marks)
- The temporal method (10 Marks)

QUESTION FOUR (20 MARKS)

- a) Describe the various forms of application of cash in a Group Company. (7 Marks)
- b) You are required to arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of International Accounting Standard 3:

	Particulars	Shs in 000s	Shs in 000s
Net Profit			60,000
Add:	Sale of investments		70,000
	Depreciation on assets		11,000
	Issue of preference shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			166,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease in creditors	6,000	
	Increase in debtors	8,000	
	Exchange gain	8,000	
	Profit on Sale of Investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	107,045
			59,455
Add:	Opening cash and cash equivalent		12,341
	Closing Cash and Cash Equivalents		71,796

(13 Marks)

QUESTION FIVE (20 MARKS)

A Ltd was incorporated for taking over the business of B from 1st April, 2021. The following is the balance sheet of B as at 31st March 2022:

Liabilities	Shs	Assets	Shs
Capital	100,800	Land & Building	160,000
Loans	120,000	Plant & Machinery	28,000
Creditors	71,200	Furniture	20,000
		Sundry debtors	84,000
	292,000		292,000

The company takes over the business with fixed assets and loans on the following terms:

- The fixed assets should be depreciated at 10%
- The value of goodwill is estimated at shs 80,000
- The company realized shs 80,000 from sundry debtors as the agent of the vendor in full settlement and discharged all the trade creditors by paying shs 68,000 for a commission of 3% on the amount collected and 2% on the amount paid
- The creditors accepted 10% preference shares of shs 100 each in discharge of the loans
- After realization of the debts and discharge of the liabilities, the total amount due to the vendor was settled by payment of shs 5,440/= in cash and the balance in the shape of fully paid equity shares of shs 10 each.

Required:

- Compute the purchase consideration. (3 Marks)
- Pass journal entries in the books of A Ltd. (13 Marks)
- Prepare the balance sheet of A Ltd after taking over the business of B. (4 Marks)