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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 14<sup>th</sup> April, 2023  
 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) On 1st January 2015 Kiongozi limited purchased 24 million shares in Mfuasi limited. The acquisition was made by way of an immediate share exchange of 2 shares in Kiongozi limited for every 3 shares held in Mfuasi limited plus a cash payment of sh. 15 million. The statement of financial position of Kiongozi limited and Mfuasi limited as at 31st December 2020 were as follows:

	Kiongozi Limited Sh. "000"	Mfuasi Limited Sh. "000"
Non-current Assets		
PPE	30,000	34,800
Investment in Mfuasi limited	<u>26,000</u>	<u>3,000</u>
	56,000	37,800
Current Assets		
Inventory	10,000	5,000
Accounts receivable	13,000	12,000
Cash/Bank	<u>1,000</u>	<u>3,000</u>
	<u>24,000</u>	<u>20,000</u>
<b>TOTAL ASSETS</b>	<u>80,000</u>	<u>57,800</u>
Equity and Liabilities		
Capital and Reserves		
Ord. Share capital @sh 1.0	20,000	30,000
Share premium	8,000	2,000
Retained Earnings	<u>10,600</u>	<u>8,500</u>
	38,600	40,500
Current Liabilities		
Trade Payables	<u>41,400</u>	<u>17,300</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>80,000</u>	<u>57,800</u>

**Required:**

On the date of acquisition, the retained earnings of Mfuasi limited was 7 million.

- i) Show the amount of investment in Mfuasi Limited (3 marks)
  - ii) Determine the goodwill for the year ended 31st December 2020. (3 marks)
  - iii) Determine the group retained earnings for the year ended 31st December 2020. (3 marks)
  - iv) Determine the non-controlling interest for the year ended 31st December 2020 (3 marks)
  - v) Prepare the group's statement of financial position for the year ended 31st December 2020. (8 marks)
- b) Mazungumzo limited is a company that has ventured in communication sector in Kenya. The company has been experiencing increased profits over the years. The management of the company are now considering conducting Corporate social responsibility. Elucidate the importance of corporate social responsibility accounting to the company? (10 marks)

**QUESTION TWO (20 MARKS)**

H limited acquired 90% ordinary shares of S limited on 1 July 2022 where the retained earning of S limited were sh. 200,000.

The following is the statement of financial position as at 31 December 2022.

	H Limited Sh.	S Limited Sh.
Non-current Assets		
Property, Plant & Equipment	640,000	800,000
Investment in S Limited	<u>1,000,000</u>	<u>-</u>
	1,640,000	800,000
Current Assets		
Inventory	400,000	280,000
Accounts receivable	360,000	180,000
Cash/bank	<u>100,000</u>	<u>20,000</u>
	<u>860,000</u>	<u>480,000</u>
<b>TOTAL ASSETS</b>	<b><u>2,500,000</u></b>	<b><u>1,280,000</u></b>
EQUITY & LIABILITIES		
Capital & reserves		
Ordinary share capital @sh.10	1,200,000	700,000
Share premium	800,000	200,000
Retained profit	<u>400,000</u>	<u>300,000</u>
	2,400,000	1,200,000
Current Liabilities		
Account payable	<u>100,000</u>	<u>80,000</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b><u>2,500,000</u></b>	<b><u>1,280,000</u></b>

Required:

- i) Prepare the goodwill account and the cost of control account (10 marks)
- ii) Prepare the group's statement of financial position for the year ended 31<sup>st</sup> December 2022. ((10 marks)



#### **QUESTION FOUR (20 MARKS)**

Faida limited a public limited company based in Kenya, owns 75% of the ordinary shares capital of Sifa limited a public limited company based in Rwanda. Faida limited acquired Sifa limited on 1 May 2015 for sh. 1,200 million Rwandan Francs (RWF) when the retained profits of Sifa limited were 800 million RWF. The functional currency of Faida limited is the Kenya Shilling (Ksh). The functional currency of Sifa limited is the Rwandan Francs (RWF). Sifa limited has not revalued its assets or issued any share capital since its acquisition by Faida limited. The following financial statements relates to Faida limited and Sifa limited.

#### **Statement of financial position**

	Faida Limited Ksh."million"	Sifa Limited RWF "million"
Assets:		
Property, plant and equipment	2970	1460
Investment in Sifa limited	480	0
Loan to Sifa limited	50	0
Current assets	<u>3550</u>	<u>1020</u>
Total assets	<u>7050</u>	<u>2480</u>
Equity & liabilities		
Ordinary shares of Ksh 10/RWF 10	600	320
Share premium	500	200
Retained earnings	<u>3600</u>	<u>950</u>
Total equity	4700	1470
Non-current liabilities	300	410
Current liabilities	<u>2050</u>	<u>600</u>
Total equity and liabilities	<u>7050</u>	<u>2480</u>

#### **Statement of Comprehensive income**

	Faida Limited Ksh."million"	Sifa Limited RWF "million"
Revenue	2,000	1,420
Cost of sales	<u>(1,200)</u>	<u>(960)</u>
Gross profit	800	460
Distribution and admin expenses	<u>(300)</u>	<u>(200)</u>
Profit from operations	500	260
Interest receivable	40	-
Interest payable	<u>-</u>	<u>(20)</u>
Profit before tax	540	240
Income tax expense	<u>(200)</u>	<u>(90)</u>
Profit for the year	<u>340</u>	<u>150</u>

#### **Additional information**

1. Goodwill is reviewed for impairment annually. As at 30 April 2016, the impairment loss on recognized goodwill was RWF 42 million
2. During the year ended 30 April 2016, Sifa limited purchased raw materials from Faida limited and denominated the purchase n RWF in its financial records. The details of the transaction are as shown below:

Nature of goods	Date of transaction	Selling price Ksh. "million"	Profit percentage on selling price
Raw materials	1-Feb-2016	60	20%

As at 30 April 2016, half of the raw materials purchased were still in the inventory of Sifa limited.

3. Faída limited issued an interest free loan to Sifa limited of Ksh. 50 million on 1 May 2015. The loan was repaid on 31 May 2016. Sifa limited included the loan in its non-current liabilities.
4. The fair value of the net assets of Sifa limited as at the date of acquisition is assumed to be the same as the carrying value.
5. Faída limited paid a dividend of Ksh. 80 million during the year ended 30 April 2016. This dividend has not been included in the company's income statement.
6. The corporation tax rate is 30%
7. It is the group's policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.
8. The following exchange rates are relevant to the financial statements.

30 April 2015/1 May 2015	2.5
1 November 2015	2.6
Friday, April 1, 2016	2.0
Saturday, April 30, 2016	2.1
Average rate for the year ended 30 April 2016	2.0

**Required:**

Prepare the following statements according with the applicable IFRSs

- i. Consolidated income statement for the year ended 30 April 2016 (10 marks)
- ii. Statement of financial position for the year ended 30 April 2016 (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) "Human capital is the most valuable asset of any organization. The goal of HR accounting is to measure and report on this asset, just as we measure and report on financial and physical assets." Discuss the argument for and against with regard to the above assertion (10 marks)
- b) Briefly explain three social responsibilities of a business enterprise giving examples. (6 marks)
- c) Distinguish between;
  - i) Internal reconstruction and external reconstruction (2 marks)
  - ii) Subsidiary and joint venture (2 marks)