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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 11th December, 2024

Time: 11.30am – 1.30pm

KAC 2400 - ADVANCED FINANCIAL ACCOUNTING PRACTICES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) You are the Finance Manager of a company that is undergoing a significant corporate restructuring. The company has faced financial difficulties, and as part of the restructuring process, a combination of internal and external reconstruction strategies is being proposed. The restructuring includes changes to the capital structure, impairment testing, and several significant investments.

Additional information

- The company is considering a scheme of reconstruction to address its financial position.
- The company also needs to value its raw materials, Work-in-Progress (WIP), and finished goods for the financial year.
- As part of the restructuring, the company has identified certain assets whose recoverable amount might be lower than their carrying amount.
- The company is considering a loan for financing its restructuring efforts.
- The company is acquiring a smaller firm as part of its restructuring strategy.
- The company is considering including a value-added statement (VAS) in its financial disclosures post-restructuring.

Required:

- i) Discuss the internal methods that can be used for capital restructuring. (2 Marks)
 - ii) Explain how to determine whether an asset is impaired. (2 Marks)
 - iii) Discuss how the management can go about valuation of the assets. (2 Marks)
 - iv) Guide the management in the determination of the cost to capitalize. (2 Marks)
 - v) Explain the disadvantages of using value added statement in this case (2 Marks)
- b) You are the Senior Tax Manager at a group of companies. The parent company, Alpha Ltd, owns 100% of the share capital of its subsidiary, Beta Ltd. Both companies prepare their financial statements in accordance with IFRS. As part of the year-end consolidation process, you are tasked with preparing the consolidated financial statements for the group. Below are the financial statements for Alpha Ltd and Beta Ltd as at December 31, 2024:

Alpha Ltd (Parent)

Account	Amount (\$)
Revenue	1,200,000
Cost of Goods Sold	(600,000)
Operating Expenses	(200,000)
Profit Before Tax	400,000
Tax Expense	(100,000)
Net Profit After Tax	300,000
Assets:	
- Non-Current Assets	800,000
- Current Assets	500,000
Liabilities:	
- Non-Current Liabilities	(200,000)
- Current Liabilities	(300,000)
Equity:	
- Share Capital	400,000
- Retained Earnings	500,000

Beta Ltd (Subsidiary)

Additional Information:

- Alpha Ltd purchased Beta Ltd on January 1, 2020, and currently owns 100% of Beta Ltd's share capital. There is no goodwill in the acquisition.
- Intercompany transactions during the year included:

Account	Amount (\$)
Revenue	600,000
Cost of Goods Sold	(300,000)
Operating Expenses	(100,000)
Profit Before Tax	200,000
Tax Expense	(50,000)
Net Profit After Tax	150,000
Assets:	
- Non-Current Assets	400,000
- Current Assets	300,000
Liabilities:	
- Non-Current Liabilities	(150,000)
- Current Liabilities	(200,000)
Equity:	
- Share Capital	200,000
- Retained Earnings	250,000

- Sales from Alpha Ltd to Beta Ltd: \$100,000
- Sales from Beta Ltd to Alpha Ltd: \$80,000
- Receivables and payables between Alpha Ltd and Beta Ltd are included in the current assets and liabilities of both companies.
- The tax rate for both companies is 30%.

Required

- Prepare the **consolidated income statement** for the group of Alpha Ltd and Beta Ltd for the year ended December 31, 2024. (10 Marks)
- Prepare the **consolidated balance sheet** for the group as at December 31, 2024. (10 Marks)

QUESTION TWO (20 MARKS)

XYZ Manufacturing Ltd is a medium-sized company engaged in the production and sale of consumer electronics. The company has experienced steady growth over the past few years. The financial information for the year ending December 31, 2023, is provided below:

- Revenue from Sales: \$10,000,000
- Cost of Materials and Services Purchased: \$6,000,000
- Employee Salaries and Benefits: \$1,500,000
- Interest Paid on Borrowings: \$200,000
- Tax Paid to the Government: \$500,000
- Dividend Paid to Shareholders: \$300,000
- Retained Earnings: \$500,000

XYZ Manufacturing Ltd is required to prepare a Value Added Statement (VAS) to present the value it has created and distributed among its stakeholders.

Required:

- Explain merit of value added statements. (5 marks)
- Prepare a Value Added Statement for XYZ Manufacturing Ltd for the year ended December 31, 2023. (5 marks)
- Discuss the benefits of presenting a Value Added Statement to stakeholders. (5 marks)
- Delta Ltd** is a manufacturing company that sells products made from raw materials. The company uses two different inventory valuation methods: **LIFO** (Last-In, First-Out) and **FIFO** (First-In, First-Out). At the end of the year, the company needs to calculate the value of its inventory using both methods for reporting purposes. (5 marks)

QUESTION THREE (20 MARKS)

ABC Ltd. owns a building that was acquired several years ago for \$5,000,000. As of December 31, 2023, the carrying amount of the building is \$3,500,000. Due to an economic downturn, the future cash flows expected from leasing the building have decreased. The company estimates the following annual cash flows over the remaining useful life of the building:

- 2024: \$500,000
- 2025: \$500,000
- 2026: \$400,000
- 2027: \$300,000
- 2028: \$300,000
- 2029: \$200,000

The fair value of the building (less costs to sell) is estimated at \$2,800,000. The discount rate for present value calculations is 10%.

Required:

- a) **Calculate the recoverable amount** of the building as of December 31, 2023. (10 marks)
- b) Explain FIVE challenges faced by pension funds. (10 Marks)

QUESTION FOUR (20 MARKS)

Omega Ltd is constructing a new manufacturing plant. The project began on January 1, 2024, and is expected to be completed by December 31, 2025. The construction is being financed through a combination of general borrowings and a specific loan. Omega Ltd applies IAS 23 – Borrowing Costs in preparing its financial statements.

Below are the relevant details for the year 2024:

Specific Loan:

Loan amount: \$5,000,000

Annual interest rate: 8%

The loan was taken on January 1, 2024, and is exclusively for the construction of the plant.

General Borrowings:

Loan 1: \$3,000,000 at an annual interest rate of 7%

Loan 2: \$2,000,000 at an annual interest rate of 6%

Both loans were taken before 2024 and are used for general business operations.

Construction Costs:

Costs incurred:

1. Q1 (January – March): \$1,000,000
2. Q2 (April – June): \$1,500,000
3. Q3 (July – September): \$1,000,000
4. Q4 (October – December): \$1,500,000

Payments are made at the end of each quarter.

Suspension of Work:

Construction was suspended for 2 months (August and September) due to labor strikes.

Investment Income:

Omega Ltd temporarily invested unused funds from the specific loan, earning \$50,000 in investment income during the year.

Required

- a) Determine the AMOUNT of borrowing costs eligible for capitalization for the year ended December 31, 2024. (5 Marks)
- b) Prepare the JOURNAL entries to record the borrowing costs for the year 2024 (5 Marks)
- c) State FIVE factors to consider when designing a capital reduction scheme. (5 Marks)
- d) Discuss FIVE benefits of pension funds. (5 Marks)

QUESTION FIVE(20 MARKS)

- a) A pension fund has the following financial information as of December 31, 2023:

- Cash and Cash Equivalents: \$150,000
- Investments: \$850,000
- Receivables: \$50,000
- Other Assets: \$25,000
- Benefits Payable: \$100,000
- Loans and Obligations: \$200,000
- Other Liabilities: \$30,000

Required:

Prepare the Statement of Net Assets for the pension fund as of December 31, 2023.

(10 Marks)

- b) Below is a summary of **Delta Ltd's inventory purchases and sales** during the year:

Date	Transaction	Quantity	Unit Cost (\$)
January 1	Opening Inventory	1,000 units	10
March 15	Purchase	2,000 units	12
July 20	Purchase	3,000 units	15
September 10	Sale	2,500 units	-
November 5	Purchase	1,500 units	18
December 15	Sale	2,000 units	-

Additional Information:

- The company uses a periodic inventory system.
- The sales made on September 10 and December 15 were at a unit cost of \$12 and \$15, respectively, based on the inventory on hand.

Required

- i) Compute the value of Delta Ltd's ending inventory using the LIFO methods. (5 Marks)
- ii) Compute the value of Delta Ltd's ending inventory using FIFO methods. (5 Marks)