



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
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 2nd August, 2022
Time: 11.30am –1.30pm

KAC 300 - ADVANCED FINANCIAL ACCOUNTING TECHNIQUES

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Some relatives of yours are interested in starting some business. They are short of funds and thus need to come together to be able to finance the operations. Required: Discuss the reasons that would make them operate a joint venture instead of a partnership form of business organisation. (6 marks)
- b) A friend of yours who is not accountant is concerned that she is having no cash yet his accountant tells him the business is profitable. Explain to him how this is possible. (5 marks)
- c) Discuss the key features that differentiate between a merger and an acquisition. (4 marks)
- d) P Ltd acquired the entire shareholding of Q Ltd on 31st December 2010 for Shs35 million. The respective balance sheets on the date of acquisition were as follows

	<u>P Ltd</u>	<u>Q Ltd</u>
	<u>Shs'000</u>	<u>Shs'000</u>
Non-current assets	36000	27000
Investment in Q Ltd	35000	-
Current Assets		
Stock	20000	7000
Debtors	18000	8000
Cash and bank	2000	1000
Financed by		
Ordinary Share Capital	60000	25000
Reserves	36000	10000
Liabilities	<u>15000</u>	<u>8000</u>
	<u>111000</u>	<u>43000</u>

The fair value of the assets is equal to the book value

Required;

- i) Compute the goodwill on acquisition. (5 Marks)
- ii) Compute the minority interest. (5 Marks)
- iii) Draw up the P group consolidated balance sheet. (5 marks)

QUESTION TWO (20 MARKS)

- a) The individual balance sheets of A Ltd and B Ltd immediately prior to their combination was as follows

	<u>A Ltd</u>	<u>B Ltd</u>
Ordinary shares of Shs1 each 5,000,000		2,000,000
Revenue Reserves	<u>1,000,000</u>	<u>500,000</u>
	<u>6,000,000</u>	<u>2,500,000</u>
Net assets	<u>6,000,000</u>	<u>2,500,000</u>

On that date A Ltd acquired the whole of the share capital of B Ltd by issuing one new ordinary share for each share in B Ltd. The fair value of B's net assets at this date was Kshs2800000.

Required

Balance sheets as at this date for A Ltd and for the group using

- i) The acquisition method (5 Marks)
- ii) The merger method (5 Marks)
- b) Jarapuon Ltd acquired 80% of OmenaOmena Ltd on 1st January 2019. The capital of OmenaOmena Ltd stood at Shs1, 000,000 while the revenue reserves were Shs600,000. Jarapuon paid Shs1, 500, 000 for the purchase. The fair value of the assets of Omenaomenawas equivalent to the book value on the acquisition date. On 31st December 2019 the assets of OmenaOmena Ltd stood at Shs800, 000.

Required: Compute the

- i) Goodwill on acquisition. (5 marks)
- ii) Minority interest as at 31st December 2019 (5 Marks)

QUESTION THREE (20 MARKS)

- a) S Ltd is a wholly owned subsidiary of H Ltd. During the year ended 31st December 2017 H Ltd sold a motor vehicle costing Shs6 million at a price of Shs6400000 to S Ltd. The motor vehicle has a useful life of 5 years with no residual value. It is to be depreciated on straight line basis.

Required: Show the adjustments to be made in the consolidated income statement in relation to the above. (8 Marks)

- b) H Ltd acquired 80% of the ordinary shares of S Ltd in 2015. The summarized profit and loss account of the two companies for the year ending 31st December 2018 were as follows.

	<u>H Ltd</u>	<u>S Ltd</u>
	<u>Shs</u>	<u>Shs</u>
Turnover	4,000,000	3,000,000
Cost of sales	<u>(2,500,000)</u>	<u>(2,000,000)</u>
Gross profit	1,500,000	1,000,000
Expenses	<u>(700,000)</u>	<u>(600,000)</u>

Profit before taxation	800,000	400,000
Tax	<u>(350,000)</u>	<u>(180,000)</u>
Retained profit for the year	450,000	220,000
Retained profit b/f	<u>650,000</u>	<u>380,000</u>
Retained profit c/f	<u>1,100,000</u>	<u>600,000</u>

Required

Prepare the consolidated Income statement.

(12 Marks)

QUESTION FOUR (20 MARKS)

Kogoiyot Ltd, a fast growing FMCG company in Kenya is eyeing the possibility of expanding beyond borders. The board of directors have given the CEO the go-ahead to scout for a possible takeover/acquisition of a supermarket chain in Uganda by the name Museve Ltd (quoted at the Uganda Securities Market). Museve Ltd has a limited government shareholding of 30%. Due to political interference the company has not been doing well, a fact which Kogoiyot is well aware of. Kogoiyot Ltd reported to the board that with good management this could be the next cash cow. The CEO of Museve Ltd on a recent holiday in Kenya heard the rumour of the possible takeover of his company by Kogoiyot. Knowing the financial muscle of the latter, the CEO is worried that a hostile takeover could even be on the table of Kogoiyot. Mr. Kabatela (the Museve Ltd CEO) has only two years to retire as the CEO and would hate a situation where his company would be acquired when he is the CEO. The concern is that this would be a loss to the Ugandan investors in the long run and he would also almost obviously be retired immediately by the new owners. He has approached you for advice (knowing that you are considered as one of the best advisers on mergers and acquisitions regionally) on possible ways to address the challenge at hand. You are to meet Kabatela in 15days at the exclusive Kilaguni Lodge.

Required;

Discuss the actions that can be undertaken by the following parties to address/counter the threat.

a) The Directors of Museve Ltd. (10 Marks)

b) The top managers of Museve (10 marks)

QUESTION FOUR (20 MARKS)

The summarized balance sheets of Mwenyenchi Ltd and Mwananchi Ltd as at 31st December 2015 are given as under:-

	<u>Mwenyenchi Ltd</u>	<u>Mwananchi Ltd</u>
	<u>Shs'000</u>	<u>Shs'000</u>
Non- current assets	8,150	4,500
Current assets	4,250	4,900
Current liabilities	(2,550)	(3,500)
8% debentures	<u>(750)</u>	<u>(900)</u>
	<u>9,100</u>	<u>5,900</u>

CAPITAL STRUCTURE

Called up OSC @shs20	5,500	2,000
Share premium	1,500	0
Revaluation reserve	0	800
Profit & Loss account	<u>2,100</u>	<u>2,200</u>
	<u>9100</u>	<u>5,000</u>

Mwenyenchi Ltd acquired 90% shares in Mwanachi Ltd as at that date. The shares in Mwananchi Ltd were acquired as a result of one offer which had been accepted by 90% of the shareholders of Mwananchi Ltd. On the date of acceptance, the shares of Mwenyenchi Ltd were selling at Shs60 per share of Shs20 at the NSE.

The following three alternatives of the purchase consideration were considered;

Required;

For each of the three alternatives, prepare a consolidated balance sheet immediately after the purchase.

- a) 75000 shs20 ordinary shares in Mwenyenchi Ltd and shs600, 000 in cash. (8 Marks)
- b) 85000 shs20 ordinary shares in Mwenyenchi Ltd. (6 Marks)
- c) 80000 shs20 ordinary shares in Mwenyenchi Ltd and shs300, 000 in cash. (6 Marks)