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University Examinations 2023/2024

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF BUSINESS ADMINISTRATION

BFC 3355: ADVANCED ACCOUNTING II

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- Explain the main benefits of a cash flow statement (5 marks)
- Discuss the reasons for the differences between cash flows and profits (5 marks)
- Set out below are the summarised statement of financial positions of Juhudi Ltd. For the years ended 31 December 2022 and 2023 and the profit and loss account for the year 31 December 2023:

Statement of Financial positions as at 31 December

	2022	2023		
	KES'000	KES'000	KES'000	KES'000
Equity & Debt Capital:				
Ordinary share capital	14,800		18,800	
Revaluation reserve	2,500		6,500	
Revenue reserves	21,120		27,780	

Share premium	3,000		4,800	
Loans	<u>8,400</u>	<u>49,820</u>	<u>5,200</u>	<u>63,080</u>
Current Liabilities:				
Accounts Payable	3,040		2,820	
Proposed dividends	2,800		3,400	
Taxation	9,400		12,040	
Bank overdraft	=	<u>15,240</u>	<u>15,320</u>	<u>33,580</u>
		<u>65,060</u>		<u>96,660</u>
Fixed Assets:				
Freehold land		18,000		22,000
Plant and Machinery:				
Cost	54,000		76,620	
Acc. depreciation	<u>(14,960)</u>	39,040	<u>(22,500)</u>	54,120
Current assets:				
Stock	4,060		16,860	
Debtors	2,940		3,680	
Cash at bank	<u>1,020</u>	<u>8,020</u>	=	<u>20,540</u>
		<u>65,060</u>		<u>96,660</u>

Proposed and loss account for the year ended 31 December 2023:

	KEs'000'	KES'000'
Profit before tax		23,900
Corporation tax		(12,040)

Profit after tax		11,860
Ordinary dividend:		
Paid	1,800	
Proposed	<u>3,400</u>	<u>(5,200)</u>
		6,660

Additional Information:

1. During the year ended 31 December 2023, Juhudi Ltd. Obtained a five-year bank loan amounting Kes 1,300,000.
2. Depreciation charged on plant and machinery during the year ended 31 December 2023 amounted to KES 8,020,000.
3. During the year ended 31 December, 2023 plant which originally cost KES 1,380,000 was disposed of for KES 820,000.

Required:

Cash flow statement in compliance with IAS 7(Cash Flow Statements). For the year ended 31 December 2023 (20 marks)

QUESTION TWO (20 MARKS)

- a) Discuss five acts of the principal debtor that can lead to bankruptcy proceedings (10 marks)
- b) Explain the main powers of a liquidator (10 marks)

QUESTION THREE (20 MARKS)

Ugenya Limited gained control of Orenge Limited in 2022 when it acquired 60% of the share holding as follows:

January 2019	25%
January 2019	20%
January 2020	15%

Total	60%
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The profit/revenue reserves of XYZ limited were as follows:

31 December 2018	3,000,000
31 December 2018	9,000,000
31 December 2019	12,000,000
31 December 2020	14,600,000

Required:

- Compute the minority interest, post-acquisition profit and pre-acquisition profit using the conventional method (4 marks)
- Compute as per the above using step by step Approach (4 marks)
- Outline any consideration that ABC limited would consider in deciding which approach to adopt (4 marks)
- State factors that might influence ABC limited to acquire shares of XYZ Limited on piecemeal basis (4 marks)
- Explain the equity method used in accounting for associates (4 marks)

QUESTION FOUR (20 MARKS)

On 1 January 2022, H Ltd, a manufacturer of clay products, made the following investments.

- Acquired 60% of the ordinary shares of S Ltd. For Shs 80,000,000
- Acquired 40% of the preference shares of S Ltd for sh. 25,000,000
- Acquired 30% of the ordinary shares of A Ltd for sh 55,000,000

H Ltd is represented in the board of directors of A Ltd by two directors

The drafts accounts of H Ltd, S Ltd and A Ltd for the year ended 31 December 2022 as follows;

Draft profit and loss accounts as at December 2022

	H Ltd	S Ltd	A Ltd
	Sh '000'	Sh '000'	Sh '000'
Turnover	<u>600,000</u>	<u>400,000</u>	<u>350,000</u>
Profit before tax	200,000	180,000	100,000

Taxation	(60,000)	(45,000)	(30,000)
Profit after tax	140,000	135,000	70,000
Less proposed dividends:			
Preference	-	(30,000)	-
Ordinary	(60,000)	(60,000)	(40,000)
Retained profits	80,000	45,000	30,000
Balance brought forward	<u>40,000</u>	<u>60,000</u>	<u>50,000</u>
Balance carried forward	<u>120,000</u>	<u>105,000</u>	<u>80,000</u>

Draft profit and loss accounts as at December 2022

	H Ltd	S Ltd	A Ltd
	Sh '000'	Sh '000'	Sh '000'
Assets:			
Non-current assets	375,000	195,000	135,000
Current Assets:			
Stocks	90,000	85,000	60,000
Debtors	80,000	65,000	40,000
Cash at bank	<u>75,000</u>	<u>50,000</u>	<u>45,000</u>
	<u>245,000</u>	<u>200,000</u>	<u>145,000</u>
Total Assets	<u>620,000</u>	<u>395,000</u>	<u>280,000</u>
Equity and Liabilities:			
Equity:			
Authorized and fully paid:			
3,000,000 ordinary shares of Sh. 100 par value	300,000		
1,000,000 ordinary shares of Sh. 100 par value		100,000	100,000
500,000 Preference shares of Sh. 100 par value		50,000	
Profit and loss account balance	<u>120,000</u>	<u>105,000</u>	<u>80,000</u>
	<u>420,000</u>	<u>255,000</u>	<u>180,000</u>
Liabilities			
Current Liabilities:			
Creditors	80,000	35,000	30,000

Proposed dividends	60,000	60,000	40,000
Taxation	<u>60,000</u>	<u>45,000</u>	<u>30,000</u>
Total equity and liabilities	<u>200,000</u>	<u>140,000</u>	<u>100,000</u>
	<u>620,000</u>	<u>395,000</u>	<u>280,000</u>

Additional information:

1. Non-current assets of H Ltd include the cost of investments in S Ltd and A Ltd.
2. H Ltd has not accounted for dividends receivable from S Ltd and A Ltd. H Ltd accounts for dividends due to minority interests as a current liability.
3. The assets in A Ltd are to be revalued upwards by Sh. 60,000,000 to arrive at their values.
4. Included in the stocks of S Ltd were goods purchased from H Ltd for Sh. 5,000,000. H Ltd had marked up the goods by 25% of their cost.
5. On 15 January 2022, S Ltd made a bonus issue of 2 shares for every 5 held.

Required:

- a) Consolidated profit and loss account and statement of retained earnings, of H Ltd, its subsidiary and associated company, for the year ended 31 December 2022. (10 marks)

QUESTION FIVE (20 MARKS)

Furahini Ltd is insolvent and is in process of filing for relief under the provisions of the Bankruptcy Act. The company has no cash and its balance sheet currently shows creditors of Sh. 48 million. An additional Sh. 8 million is owed in connection with various expenses but these amounts have not yet been recorded. The company's assets with an indication of both book value and anticipated net realizable value as at 30 September 2023 as follows:

	Book Value	Expected NRV
	Sh '000'	Sh '000'
Land	80,000	75,000
Buildings	90,000	60,000
Accumulated depreciation	(38,000)	-
Equipment	110,000	20,000
Accumulated depreciation	(61,000)	-
Investments	10,000	18,000
Stocks	48,000	36,000

Debtors	31,000	9,000
Other assets	<u>5,000</u>	=
	<u>275,000</u>	<u>218,000</u>

Additional information:

1. Furahini Ltd has three debentures payable, each with a difference maturity date:
 - Debenture one due in 5 years – Sh. 120 million, secured by a mortgage lien on Furahini’s land and buildings.
 - Debenture two due in 8 years – Sh. 30 million secured by Furahini’s investments
 - Debenture three due in 10 years – Sh. 35 million, unsecured.
2. Of the creditors owed by Furahini Ltd. Sh. 10 million represents salaries to employees. However, no individual is entitled to receive more than sh. 4,000. An additional Sh. 3million is included in this liability item that is due to the Kenya Government in connection with taxes.
3. The shareholders equity balance reported by the company at the current date is Sh 42 million: composed of ordinary share capital of Sh. 140 million and a deficit Sh. 98 million.
4. If the company is liquidated, administrative expenses of approximately Sh. 20 million would be incurred.

Required:

A statement of affairs and deficiency or surplus account for Furahini Ltd to indicate the expected availability of funds if the company is liquidated as at 30 September 2023.