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UNIVERSITY EXAMINATIONS 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR
OF COMMERCE

BFC 3426/3482: ADVANCED FINANCIAL REPORTING

DATE: DECEMBER 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Discuss the advantages and disadvantages of consolidated financial statement. (10 marks)
- b) H Ltd owned S Ltd since the date of incorporation of S Ltd. The balance sheets of the two companies as at 31 December 2024 is as follows.

	HLtd		SLtd	
Non-current assets		35,000.00	45,000.00	
Tangible – PPE		<u>45,000.00</u>	_____	
Investments in S Ltd		80,000.00	45,000.00	
Current assets				
Inventory	16,000.00		12,000.00	
Accounts receivables	8,000.000		9,000.00	
Cash at bank	<u>1,000.00</u>	<u>25,000.00</u>	-	<u>21,000.00</u>
Total Assets		<u>105,000.00</u>		<u>66,000.00</u>
Share capital		70,000.00		40,000.00
Retained profits		<u>11,000.00</u>		<u>19,000.00</u>
		81,000.00		59,000.00
Non-current				



Liabilities

10% Loan Stock	10,000.00
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Current liabilities

Bank Overdraft		3,000.00	
Accounts payable	<u>14,000.00</u>	<u>14,000.000</u>	<u>4,000.00</u> <u>7,000.00</u>
		<u>105,000.00</u>	<u>66,000.00</u>

Required;

Prepare the consolidated balance sheet of H Ltd and S Ltd as at 31 December 2024
(20 marks)

QUESTION TWO (20 MARKS)

Achievers Ltd acquired 60% of the ordinary share capital of St. Marys Ltd on 1.4.2022. The income statements of the two companies for the year ended 31.12.2022 are as follows:

	H Ltd	S Ltd
	Shs	Shs
Turnover	170,000.00	80,000.00
Cost of Sales	(65,000.00)	(36,000.00)
Gross profit	105,000.00	44,000.00
Operating expenses	(43,000.00)	(12,000.00)
Profit before tax	62,000.00	32,000.00
Taxation	(23,000.00)	(8,000.00)
Profit after tax	39,000.00	24,000.00
Dividends proposed	(12,000.00)	(6,000.00)
Retained profits for the year	27,000.00	18,000.00
Retained profits b/f	81,000.00	40,000.00
Retained profits c/f	108,000.00	58,000.00

Additional information

H Ltd has not accounted for its share of proposed dividends in S Ltd. The profits of S Ltd accrued evenly throughout the period.



Required:

Prepare the consolidated income statement for the year ended 31.12.2022.

QUESTION THREE (20 MARKS)

Explain the following terms as used in financial reporting

- a) Group
- b) Non-controlling interest
- c) Significant influence
- d) Segmental reporting
- e) Value added statement

QUESTION FOUR (20MARKS)

On 1 April 2001 Mega Ltd acquired 4,500,000 ordinary shares of Ksh.20 par value in Lenga Ltd at a cost of Ksh.152, 000, 000.Further, on 1 July 2021 Mega Ltd acquired 15,000,000 ordinary shares of Ksh 20 par value in Tera Ltd at a cost of Ksh.716, 600,000. Directors were appointed to the boards of both companies by Mega Ltd so as to take an active part in their management. Given below is the information extracted from the books of the companies as at 31 March 2022.

Balance sheet as at 31March 2022

	Mega	Lenga	Tera
	Sh.	Sh.	Sh.
	'000'	'000'	'000'
Freehold property at cost	720,000	0	200,000
Plant and machinery at cost	1,375,000	450,000	350,000
Inventory	380,000	218,000	360,600
Receivables	374,800,	185,000	125,000
Amount due from Mega Ltd	-	-	48,000
Investments	868000	-	-
Bank balances	-	9 000	40,000
	3,717, 800	862, 000	1,123, 600
Share capital	1,000,000	300,000	400,000



Share premium	200,000	24,000	-
Capital reserve	300,000	-	56,000
Retained profit (as at 31 March 2022)	<u>786000</u>	<u>218 000</u>	<u>288 000</u>
	<u>2 286 000</u>	<u>542 000</u>	<u>744 000</u>
Payables	590,000	110,000	152,000
Amount due to Tera Ltd.	36,000	-	-
Accumulated depreciation —plant and machinery	521,800	120,000	124,600
Current tax	190,000	90,000	103,000
Bank balance	<u>94 000</u>	=	=
	<u>3, 717, 800</u>	<u>862,000</u>	<u>1,123, 600</u>

Additional informationis given as follows

1. Profit for the year ended 31 March 2022 after tax and before dividends were as follows;

	Sh
Mega Ltd	252,000,000
Lenga Ltd	102,000,000
Tena Ltd	128,000,000

These profits are included in the retained profits.

2. No interim dividends were paid in the year but final proposed dividends are as follows;

Mega Ltd
Lenga Ltd
Tera Ltd

3. Profits accrued uniformly throughout the year
4. Included in the inventory of Mega Ltd. were goods purchased from Tera Ltd. at Sh.40,000,000. Tera had made profits of 25% on cost of the goods.
5. A Remittance of Sh 12,000,000 from Mega ltd to Tera Ltd at the end of financial year was received in April 2022.
6. On 1 April 2021 plant and machinery of Lenga Ltd was revalued upwards by Sh 240,000,000 and the revaluation was not incorporated in the books .Plant and machinery is depreciated at the rate of 10% per annum based on cost.
7. Goodwill or premium on consolidation is has been impaired at 20%.



Required

Consolidated balance sheet of Mega Ltd and its subsidiary as at 31 March 2022 (20 marks)

QUESTION FIVE (20MARKS)

Manga Coffee Ltd. Trading, Profit and Loss Account for the year ended 31 March 2021 is presented below:

	Sh.	Sh.
Sales		30,324,000
Cost of sales		<u>19 620 000</u>
Gross profit		10,704,000
Less: Wages and salaries	3,480,000	
Interest on loan	800,000	
Depreciation	1,240,000	
General expenses	<u>450 000</u>	
		<u>5 970 000</u>
Profit before tax		4,734,000
Less corporation tax (at 30%)		<u>1 420 200</u>
Profit after tax		3,313,800
Dividends		<u>1 800 000</u>
Retained profit for the year		<u>1,513,800</u>

Required:

- A value added statement for the year ended 31 March 2021 (10 marks)
- ABC Ltd. purchased equity shares in XYZ Ltd. for Sh.56 million when the latter's retained profits were Sh.88 million. The retained earnings of XYZ Ltd. now are Sh.100 million. ABC Ltd. holds 25% of XYZ Ltd.'s equity shares and has amortised Sh.3 million premium on acquisition. XYZ Ltd has declared ordinary dividends of Sh.4 million.

Required:

Determine the value of ABC Ltd. 's investment in XYZ Ltd. using the equity method of accounting for associate companies. (10 marks)

