



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 303

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

DATE: 10 AUG 2018

TIME: 8.00 AM – 11.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

- a) Distinguish between accounting policies and accounting standards. **[6 marks]**
- b) Describe three objectives of International Financial Reporting Standards foundation. **[9 marks]**
- c) As a means of ensuring strong financial management in the public sector, most government have adopted the International Public Sector Accounting Standards (IPSAS). In reference to this statement, discuss three ways in which the government could ensure the success of the adoption of these standards. **[12 marks]**
- d) The following information was extracted from the books of Bee Limited as at 31st December 2016.

Assets	Amount Kshs.	Liabilities	Amount Kshs
Fixed Assets	1,000,000	80,000 Equity Shares at 10	800,000
Goodwill	80,000	Reserve	100,000
Debtors	120,000	Profit & Loss	120,000
Cash	100,000	6% Debentures	200,000
Stock	180,000	Creditors	160,000
		Bills Payable	100,000

Required:

On the 31st December 2016 the fixed assets were valued at kshs. 700,000 and the goodwill at kshs. 100,000. Compute the value of the company's shares by Net Asset method. **[13 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) IAS are guidelines that are used as foundation for the preparation of financial statements. Discuss IAS 18 on revenue recognition. **[5marks]**
- b) The following is a balance sheet extracted from the books of Tommy Limited Holding Company and Dolly Ltd subsidiary.

Balance Sheet
As at 31st December 2008

DESCRIPTION	TOMMY LTD	DOLLY LTD	DESCRIPTION	TOMMY LTD	DOLLY LTD
Fixed Assets	12,000,000	9,000,000	Share Capital ordinary	21,000,000	9,000,000
Investment in shares Dolly Ltd	7,200,000	-	Reserves	9,000,000	4,500,000
CURRENT ASSETS			CURRENT LIABILITIES		
Stock	6,000,000	2,400,00	Creditors	6,000,000	3,000,000
Debtors	7,800,000	3,600,000			
Bank	3,000,000	1,500,00			
	36,000,000	16,500,000		36,000,000	16,500,000

Required:

Prepare a consolidated balance sheet for Tommy Ltd and show your working.

[15 marks]

c)

Question three

- a) Discuss three basis of valuing shares in a firm. **[9 marks]**
- b) Discuss two documents which must be attached to the balance sheet of a holding company. **[11 marks]**

Question Four

- a) In today's global business environment, companies may have to grow to survive, and one of the best ways to grow is by merging with another company or acquiring other companies. A merger occurs when one firm assumes all the assets and all the liabilities of another. The acquiring firm retains its identity, while the acquired firm ceases to exist. Discuss three types of mergers. **[10 marks]**
- b) Branches are business divisions which are brought about by the desire of business firms to make their products over large territory. Discuss five objectives of branch accounting. **[10 marks]**

Question five

- a) The two principal accounting methods used in mergers and acquisitions are the pooling of interests method and the purchase method. The main difference between them is the value that the combined firm's balance sheet places on the assets of the acquired firm, as well as the depreciation allowances and charges against income following the merger. Distinguish these two methods. **[5 marks]**
- b) Superb Ltd acquired 80% of ordinary shares of Reward Ltd on 1st Jan 2014 for ksh. 3,000,000. The list of balances for the two companies at 31st December 2014

	Superb Ltd	Reward Ltd
Called up share capital		
400000 ordinary at Kshs10	4,000,000	
3000000 ordinary share at kshs .5		1,500,000
Reserves at 1 st Jan 2012	2,200,000	900,000
Retained profit I Jan 2012	200,000	180,000
Trade creditors	1,300,000	800,000
Taxation	300,000	140,000
Proposed Final Dividend	200,000	100,000
Depreciation provisions		
Freehold Property	120,000	60,000
Plant and Machinery	400,000	120,000
Current Account		140,000
TOTAL	8,720,000	3,940,000
Tangible Assets		
Freehold Property at cost	1,200,000	1,600,000
Plant and Machinery at cost	1,830,000	620,000
Investment in Y Ltd	3,000,000	
Stocks	800,000	700,000
Debtors	1,600,000	900,000
Bank	100,000	120,000

Current account	190,000	
TOTAL	8,720,000	3,940,000

Additional information

- (i) A remittance of kshs. 200,000 from Reward Ltd to Superb Ltd in December 2014 was not received by Superb Ltd until January 2015
- (ii) Goods with an invoice valued at kshs. 300,000 were dispatched by Superb Ltd in December 2014 but not received by Reward Ltd as 31st December 2014. The profit element included in this amount was Kshs.40,000
- (iii) Included in the stock of Reward Ltd at 31st December 2014 was goods purchased from Superb Ltd for ksh 1,000,000. The profit element included in this amount was kshs 200,000
- (iv) It is group policy to exclude all profits on any intra-company transactions
- (v) No interim Dividend was paid in 2014 by either the company
- (vi) Goodwill is not amortized

Required:

Prepare a consolidated balance sheet for Superb Ltd and its Subsidiary Reward Ltd as at 31st

December 2014.

[15 marks]