Quality Education for the Real World

GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS
JANUARY-APRIL 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 401
COURSE TITLE: GROUP ACCOUNTS

DATE: 2023 **TIME: 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) The power to govern the financial and operating policies of an enterprise so as to obtain benefits from activities, control is presumed when the parent acquires more than half of the voting rights of the enterprise. Even when more that half of the voting rights are not acquired, control may be evidenced by power, Explain **[10 Marks]**

b) IFRS 3 applies to all business combinations except combinations of entities under common control, combinations of mutual entities, combinations by contract without exchange of ownership interest, and formations of joint venture. Explain the methods of accounting for joint venture
[10 Marks]

c) Differentiate between operating and finance lease **[10 Marks]**

d) IAS 39 applies to **all entities** and **all types of financial instruments except** those specifically excluded, Explain **[10 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

The following trial balance was prepared by Salama limited as at 31 December 2022:

	Sh.”000”	Sh.”000”
Ordinary share capital (Sh.10 each)		20,000
8% redeemable preferences shares		12,000
6% debentures		10,000
Revaluation reserve		3,400
Retained earnings (1 January 2022)		
14,160		
Revenue		283,460
Inventory (1 January 2022)	12,400	
Purchases	147,200	
Distribution costs	22,300	
Administrative expenses	34,440	

Intrest Paid on debentures	300	
Interim dividends paid -Ordinary	2,000	
-Preferences	480	
Investment income		1,500
Leasehold building	56,250	
Plant and equipment at cost	55,000	
Furniture and fittings	35,000	
Investment	34,500	
	Sh."000"	Sh."000"
Accumulated depreciation:		
Leasehold building		18,000
Plant and equipment		12,000
Furniture and fittings		9,600
Accounts receivable	35,700	
Bank overdraft		1,680
Accounts Payable		17,770
Deferred tax		5,200
Suspense account		26,000
	435,570	435,570

Additional information:

1. The inventory as at 31 December 2022 was valued at Sh. 16 million. However, there was some goods which were considered obsolete with a net realisable valued of Sh,400,000 and a cost of Sh 450,000 with a net replacement value of Sh. 350,000.
2. The 6% debentures were issued on 1 July 2022. Intrest on debentures is payable semi-annually.
3. The policy of the company in relation to the depreciation of its assets is as follows:

Asset	Rate per annum	Method
Leasehold building	4%	On straight line basis
Plant and equipment	20%	On straight line basis

Furniture fittings 4% On reducing balance basis

The plant and equipment had a residual value of Sh.5 million.

Depreciation is classified as cost of sales expense except for the depreciation on furniture fittings which is classified as administrative expense.

4. The taxable timing differences were Sh.24 million while the deductible timing differences were Sh.105 million during the year.
5. The corporation tax of Sh 21.4 million is to be provided for the year.
6. The suspense account presents two components:
   - **i.** Proceeds from sale of plant of Sh6 million whose cost was Sh 20 million and an accumulated depreciation of Sh 2.5 million.
   - **ii.** Sh. 10 million being bonus issue o shares.
7. The directors propose to pay a financial dividend of Sh 1.50 per share on the outstanding shares at the year end.
8. The tax rate was 30%.

Required:

a) Statement of profit or loss for the year ended 31 December 2022. **[8 Marks]**

b) Statement of changes in equity for the year ended in 31 December 2022 **[4 Marks]**

c) Statement of financial position as at 31 December 2022. **[8Marks]**

Question three

Explain the following terms as used in group accounting

i) Parent **[2 Marks]**

ii) Associate **[2 Marks]**

iii) consolidation **[2 Marks]**

b) Differentiate between a joint venture and an associate **[4 Marks]**

c) Explain the role of accounting standards in regulation of accounting practice **[10 Marks]**

Question Four

Mtito Limited purchased 80% of the ordinary shares of Andei Limited on 1 May 2005 when the value of net assets was 15 Million. On 30 September 2005, the trial balances

O of the two companies were as follows:

	Mtito Ltd.	Andei Ltd.
	Sh.'000'	Sh.'000'
Cash at bank	-	11,500
Receivables	62,300	51,600
Dividend: Interim paid	4,500	3,000
Expenses (including depreciation of fixed assets)	184,700	123,600
Freehold land and buildings (net book value)	25,500	18,900
Investment in Andei Limited	94,260	
Motor vehicles (net book value)	6,700	4,900
Purchases	375,400	335,200
Plant and machinery (net book value)	28,900	21,600
Inventory	22,100	17,600
Taxation: installment tax paid	9,100	6,380
	813,460	594,280
Bank overdraft (secured on land and buildings)	6,700	
Payables	38,200	17,100
Sales	586,600	480,000
Share capital: Authorised, issued and fully paid Ordinary shares of Sh.10	60,000	20,000
Retained Profits	121,960	77,180
	813,460	594,280

Additional information:

i. Closing inventory was Sh.24, 200,000 in Mtito and Sh.19,200,000 in Andei.

ii. The turnover and expenses in Andei accrued evenly over the year; the rate of gross profit was constant throughout the year.

iii. Mtito paid its interim dividend on 15th May 2005; Andei paid its interim dividend on 31 March 2005. Mtito has not yet accounted for any dividend receivable from Andei.

iv. Between 1 May 2005 and 30 September 2005, Mtito sold goods to Andei. These goods had cost Mtito Sh.30 million. Mtito earned a gross profit of 37.5% on the selling price of these goods. On 30 September 2005, one sixth of these goods were included in the stock of Andei. Included in the debtors figure for Mtito was Sh. 7,200,000 from Andei: Mtito's account in Andei's books agreed with this figure.

v. The self assessment tax returns of Mtito and Andei show the corporation tax charge for the year at Sh.10,020,000 and Sh.7,980,000 respectively; both companies have paid installment tax on the preceding year basis.

vi. The directors have proposed that Mtito should pay a final dividend of Sh.6 million and Andei Sh.3 million.

vii. Goodwill arising on the acquisition of Andei is considered to be impaired at sh.1million.

Required:

a) A consolidated income statement for the year ended 30 September 2005 (including reconciliations of the retained profit for the year and carried forward)

b) A consolidated balance sheet as at 30 September 2005.

Question five

a) Explain the following as used in joint operation

- **i)** Jointly controlled assets **[2 Marks]**
- **ii)** Jointly controlled operations **[2 Marks]**
- **iii)** Investor **[2 Marks]**
- **iv)** Jointly controlled entities **[2 Marks]**

b) Explain the cost of a business combination **[10 Marks]**