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(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

(MMUST)

MAIN/BUNGOMA/WEBUYE/ NAIROBI CAMPUS

UNIVERSITY SUPPLEMENTARY EXAMINATIONS

2020/2021 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF SCIENCE IN ACCOUNTING

COURSE CODE: **BCA 451**

COURSE TITLE: **CONSOLIDATED ACCOUNTS**

DATE: Wednesday 3rd august 2022 **TIME:** 11-1pm

INSTRUCTIONS TO CANDIDATES
Answer **QUESTION ONE** and ANY **OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.

Question One

(a) The minority in a company which is itself a subsidiary of another company may be deprived of their right to know the performance of their company if the Company has subsidiaries and associates but declines to prepare consolidated accounts. Briefly elaborate on this statement and the remedial steps such minority can take as provided under companies act 2015. **(10marks)**

(b) Briefly explain circumstances under which a subsidiary may be excluded from consolidation **(10marks)**

(c) If a parent company is also substantially a subsidiary of another company that prepares consolidated accounts, it may not prepare consolidated accounts but must present to the registrar of companies certified documents in place of these consolidated accounts. Briefly explain these documents. **(10 marks)**

Question Two

HT ltd has been experiencing dwindling sales in its business operations due to competition from other agents dealing in telecommunication equipment. On 1 January 2018, HT Ltd. Decided to diversify its operations to the information technology (IT) industry by acquiring SL Ltd, a company dealing in the manufacture of IT equipment and software design.

The summarized financial statements of HB Ltd. and SL Ltd. Were as follows:

Income statements for the year ended 31 December 2018:

	HT Ltd.	**SL Ltd**
	Sh. '000'	**Sh. '000'**
Revenue	60,000	24,000
Cost of sales	(42,000)	(20,000)
Gross profit	18,000	4,000
Other income: Interest received	75	-
Dividend received	400	-
	18,475	4,000
Expenses:		
Distribution costs	(3,500)	(100)
Administrative expenses	(2,500)	(100)
Finance costs	-	(200)
Profit before tax	12,475	3,600
Income tax expense	(3,000)	(600)
Profit after tax	9,475	3,000
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh.10 each	10,000	2,000
Retained earnings	25,600	8,400
	35,600	10,400

Non-current liability:

10% debentures	-	2000

Additional information:

1 HT Ltd. acquired 80% of the ordinary share capital of SL Ltd .for sh.10,280,000 and also acquired half of the 10% debentures in the company.

2 The fair value of the assets of SL Ltd. at the date of acquisition were the same as their book values except for plant whose fair value was more by sh.3.2 million. As at 1 January 2018, the plant had a remaining useful life of four years. SL Ltd. depreciates plant on straight line basis on cost.

3 During the post-acquisition period, HT Ltd. sold goods to SL Ltd .for sh.12million. These goods had cost HT Ltd. sh.9 million. Subsequently, SL Ltd .sold some of the goods purchased from HT Ltd. at sh.10 million for sh.15 million.

4 On 30 June 2006,HT Ltd. and SL Ltd. paid dividends of sh.1,000,000 and sh.500,000 respectively.

5 Goodwill is considered to be impaired by 25% as at December 2018. Goodwill is classified as an administrative expense by the group companies.

Required:

(a) Group income statement for the year ended 30 December 2018. (20 marks)

Question Three

HQ ltd has been experiencing dwindling sales in its business operations due to competition from other agents dealing in telecommunication equipment. On 1 January 2019, HQ Ltd. Decided to diversify its operations to the information technology (IT) industry by acquiring Sp Ltd, a company dealing in the manufacture of IT equipment and software design.

Balance sheets as at 30th September 2006:

	HQ Ltd. Sh. '000'	**Sp Ltd Sh. '000'**
Non-current assets:		
Property, plant and equipment	19,320	8,000
Investments	11,280	-
	33,800	8,000
Current assets:		
Inventories	5,000	3,000
Accounts receivable	4,200	3,400
Cash at bank	5,800	1,600
	15,000	8,000
Total assets	45,600	16,000
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh.10 each	10,000	2,000
Retained earnings	25,600	8,400
	35,600	10,400
Non-current liability:		

10% debentures	-	2000
Current liabilities:		
Accounts payable	7,500	3,200
Current assets	2,500	400
	10,000	3,600
Total equity and liabilities	45,600	16,000

Additional information:

1 HQ Ltd. acquired 80% of the ordinary share capital of Sp Ltd .for sh.10,280,000 and also acquired half of the 10% debentures in the company.

2 The fair value of the assets of Sp Ltd. at the date of acquisition were the same as their book values except for plant whose fair value more by sh.3.2 million. As at 1 January 2019, the plant had a remaining useful life of four years. Sp Ltd. depreciates plant on straight line basis on cost.

3 During the post-acquisition period, HQ Ltd. sold goods to Sp Ltd .for sh.12million. These goods had cost HQ Ltd. sh.9 million. Subsequently, Sp Ltd .sold some of the goods purchased from HQ Ltd. at sh.10 million for sh.15 million.

4 On 30 June 2019, HQ Ltd. and Sp Ltd. paid dividends of sh.1,000,000 and sh.500,000 respectively.

5 Included in the accounts receivable and payable is sh.750,000 being the amount Sp Ltd. owed HQ Ltd.

6 Goodwill is considered to be impaired by 25% as at December 2019. Goodwill is classified as an administrative expense by the group companies.

Required:

(a) Group balance sheet as at 31 December 2019. (20 marks)

Total 20 marks)

Question Four

XYZ a medium sized business closes its books of accounts on 31 December. Given below are the comparative balance sheets for he year ended 31/122018 and 31/12/2019.

Balance Sheet as at	31/12/2019	31/12/2018
Noncurrent assets		
Land and buildings	95,000	55,000
Motor vehicles	46,000	35,000
Furniture	25,000	28,000
Current assets		
Stocks	28,000	20,000
Debtors	14,000	16,000
Prepayments	6,000	8,000
Bank balance and cash in hand	-	3,000
Total assets	214,000	165,000
Equity and Liabilities		
Capital and reserves		
Ordinary share capital	80,000	50,000

Share premium	20,000	15,000
Revaluation reserve	15,000	25,000
Retained profit	18,000	15,000
	133,000	105,000
Non-current liabilities		
10% Debentures	30,000	20,000
Bank loan	6,000	10,000
	36,000	30,000
Current liabilities		
Trade creditors	23,000	15,000
Interest payable	9,000	6,000
Current tax	6,000	5,000
Bank overdraft	4,000	-
Proposed dividends	3,000	4,000
	45,000	30,000
	214,000	165,000

The following additional information is provided for the year ended 31/12/2019.

1. Land and buildings were revalued upwards by sh. 10,000,000 during the year. In addition an acquisition of land and buildings of sh 40million was made during the year.
2. Depreciation of motor vehicles amounting to sh 4million was provided in the profit and loss account for the year. Motor vehicles having a net book value of sh 8,000,000 were sold at a profit of sh 3,000,000 during the year
3. Bonus shares of sh. 20,000,000 were issued at par during the year utilizing the revaluation reserve. XYZ ordinary shares have par value of sh 20
4. Interest expense charged to profit and loss account for the year amounted to sh 8,000,000
5. During the year tax amounting to sh. 6,000,000 was paid
6. Total dividends for the year(both interim and proposed) amounted to sh. 5,000,000
7. The profit after tax for the year amounted to sh. 8,000,000

Required

Prepare Cash-flow statement in accordance with the requirements of IAS 7 for the year ended31/12/2019. (20 marks)