



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

**MAIN/BUNGOMA/WEBUYE/NAIROBI
CAMPUS
MAIN UNIVERSITY EXAMINATIONS 2022/2023
ACADEMIC YEAR
FIRST YEAR SEMESTER ONE EXAMINATIONS**

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: BCA 404

COURSE TITLE: COMPANY ACCOUNTS

DATE: Wednesday 14th December 2022

TIME: 2.00pm-4.00pm

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.

SECTION A (Attempt all questions) (30 MARKS)**QUESTION ONE**

- a) IAS 1 provides guidelines on general purpose financial statements. In light of this statement, discuss IAS 1's minimum disclosures on information contained in the general purpose financial statements. **(4 marks)**
- b) Outline and discuss three (3) recent trends in the International Financial Reporting Standards (IFRS). **(6 marks)**
- c) The revised conceptual framework(2018) , amends the definition of Assets and Liabilities. In light of this statement, define the following terms; i) Assets **(4 marks)**
ii) Liabilities. **(4 marks)**
- d) The new company's act (2015) is among a suite of new laws intended to streamline business environment in Kenya. Briefly discuss four (3)salient features of the Act with respect to company accounts **(6 marks)**
- e) Based on IFRS 10(consolidated Financial Statements), Control can be said to exist even where the investor holds less than fifty (50) percent of voting rights in the investee company. Discuss three(3) elements that the investor must possess for control to exist in such a case. **(6 marks).**
- f) Mchana Ltd acquired 90% shareholding in Giza Ltd on 1st January 2017. Giza Ltd consequently obtained 80% shareholding in Totoro Ltd on 1st April 2019.
- a) Show the group structure
- b) Compute the controlling interest of Mchana Ltd in Giza and Totoro Ltd **(4 marks)**

SECTION B (Attempt two questions) 20 MARKS EACH**QUESTION TWO**

Viva Ltd, which manufactures footwear, makes up its accounts to 31 March each year. The company has an authorised share capital of Sh. 600,000,000 divided into 15,000,000 6.5% preference shares of Sh. 20 each and 30,000,000 ordinary shares of Sh. 10 each. The following trial balance was extracted as at 31 March 2022.

Trial balance as at March 2022

	Sh000	Sh000
Cost of Sales	699,992	
Motor vehicle expenses	59,684	
Selling and distribution costs	78,840	
Depreciation of motor vehicles – for the year	12,580	
Wages and salaries	95,834	
Administration expenses	11,492	
Audit fees	1,400	
Sales		1,191,864
Discounts received		812
Investment income – trade investments		1,072
• others		1,608
Preference dividends paid	13,000	
Debenture interest	1,600	
Corporation tax paid – instalment	8,615	
Compensation to director for loss of office	8,500	
Depreciation of fixtures for the year)	1,040	

8% debentures		20,000
Cash in hand	3,000	
Ordinary share capital issued and paid-up)		200,000
Bank balance	11,745	
Preference share capital issued and paid-up)		200,000
Inventory 31 March 2022)	204,132	
Debtors/creditors	336,440	102,000
Deferred tax		3,000
Motor vehicles (net book value)	24,800	
Provision for doubtful debts		14,400
Fixtures and fittings (net book value)	11,300	
Profit and loss account 1 April 2021)		110,848
General reserves		60,000
Share premium		40,000
Freehold land and building (cost)	270,000	
Investments – trade (market value Sh.35,000,000)	30,000	
-Others (market value Sh.62,000,000)		
	61,610	
	<u>1,945,604</u>	<u>1,945,604</u>

Additional information:

1. Wages and salaries include salary paid to Managing Director of Sh. 30,000,000 and salary paid to Sales Director of Sh. 25,000,000.
2. Provision is to be made for directors' fees Sh. 150,000,000.
3. Provision for doubtful debts is to be adjusted to Sh. 16,822,000.
4. The directors recommended an ordinary dividend of Sh.1.35 per share.
5. Corporation tax for the year is Sh.11; 820,000.
6. Land and buildings were professionally valued at Sh.300,000,000 at the year end.
7. Information about other non current asset is as follows:

	Motor vehicles Sh	Fixtures & fittings Sh
Cost (including additions during the year)	51,200,000	20,800,000
Additions during the year	2,240,000	1,600,000
Cost of assets disposed of during the year (No entry made yet)	2,800,000	1,455,000
Accumulated depreciation of asset disposed of during the year	2,150,000	905,000
Proceeds of asset disposed of (included in sales in the trial balance)	715,000	500,000

Required

- (a) Income statement for the year ended 31 March 2022 **(10 marks)**
(b) Statement of Financial Position as at 31 March 2022 **(10 marks)**

QUESTION THREE

- a) Outline and briefly discuss two fundamental qualitative characteristics of useful financial information. **(4 marks)**
- b) Sina ltd acquired 72% ordinary shares of Maoni Ltd on 1st August 2014 for sh 250 million. On 30th September 2021, the Statement of Financial Position of the two companies were as follows;

Sina ltd(sh million) Maoni Ltd(sh million)

Non-current assets

Land and buildings	223	250
Investment in shares of Maoni ltd.250		—

Current assets

Inventory	50	62
Accounts receivable	60	48
Bank	<u>19</u>	<u>14</u>
	602	394
Ordinary shares (sh 1 each)	300	200
Share premium	40	10
P&L account b/f	150	40
Profit for the year	60	24
3% debenture	40	100
Accounts payable	<u>12</u>	<u>20</u>
	602	394

Additional information

1. Sina ltd sold goods to Maoni ltd for sh 26 million. Sinaltd sold the goods at a mark-up of 30%. Maoni ltd had sold only 25% of the goods ast at the year end
2. Sina ltd and Maoni Ltd had declared dividends of sh 15 million and sh 10 million respectively before 30th Sept 2014 but had not adjusted for them
3. Maoni ltd sold PP&E to Sina ltd realizing a profit of sh 20 million. Sina ltd was depreciating the item over remaining useful life of 4 years. The group charges full depreciation in year of acquisition and none in the year of disposal
4. Goodwill was impaired by 25% as at 31st Sept 2021.
5. Goodwill attributable to non-controlling interest was valued at sh 9.4 million.
6. Trade receivable of Sina ltd included sh 12 million due from Maoni ltd while trade payables of Sina ltd included sh 7 million due to Okoa ltd

Required: consolidated Statement of financial position as at 30th Sept 2014

(16 marks)

QUESTION FOUR

a) S Ltd prepares its accounts every 31st December. S Ltd acquired 80% ordinary shares of H Ltd on 1 April 2020 when the retained profits of H Ltd was sh 25,000. The summarized income statements of the two companies as at 31st December 2020 are given as follows:

	<u>S Ltd (sh 000)</u>	<u>H Ltd (sh 000)</u>
Sales	40 000	30 000
Cost of Sales	<u>(25 000)</u>	<u>(20,000)</u>
Gross profit	15 000	10 000
Expenses	<u>(7 000)</u>	<u>(6 000)</u>
Profit before tax	8 000	4 000
Tax expense	<u>(3 500)</u>	<u>(1 800)</u>
Retained earnings for the year	<u>4 500</u>	<u>2 200</u>
Retained profit brought forward	6 500	3 800
Retained profit carried forward	<u>11 000</u>	<u>6 000</u>

Required: Consolidated income statement for the group as at 31st December 2020 (10 marks)

b) Identify the fundamental accounting concept /limitation with respect to the following accounting practices;

i) KK Ltd classifies its assets and liabilities into both non-current and current in its Statement of financial position ii) Turf Ltd records its assets at their historical cost. The assets are then adjusted annually for depreciation. iii) Kestrel Ltd, a brokerage firm, values all its marketable securities at their market value iv) Centun Ltd provides for doubtful debts as well as depreciation. Profits are only recorded when realised.

v) Jikaze Ltd expenses waste baskets and files in its income statement (5 marks)

c) Outline and discuss company's directors responsibilities with respect to the financial statements (5 marks)