



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

**MAIN CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**FOURTH YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF SCIENCE (ACCOUNTING)**

**COURSE CODE: BCA451**

**COURSE TITLE: CONSOLIDATED ACCOUNTS**

**DATE: Friday 22<sup>ND</sup> APRIL 2022      TIME: 12 - 2PM**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer FOUR (3) questions

**TIME: 2 Hours**

MMUST observes ZERO tolerance to examination cheating

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**QUESTION ONE(Compulsory, 30 marks)**

- (a) List the items that constitute consolidated accounts as per acts No. 17 of 2015. (4 marks)
- (b) Briefly explain why a company that is a holding company or parent needs to present to its shareholders consolidated accounts (6 marks)
- (c) Briefly explain circumstances under which a parent company may be exempt from presenting consolidated accounts (6 marks)
- (d) Under what conditions would holding company exclude a subsidiary from consolidation (6 marks)
- (e) Briefly explain how investment in subsidiaries not consolidated in group accounts may be presented in consolidated statement of financial position. (6 marks)

**QUESTION TWO**

Following is a summary of the balances in the records of Kwetu Ltd and its subsidiary Kwenu Ltd as at 31 December 2021.

	Kwetu Ltd Sh. '000'	Kwenu Ltd. Sh. '000'
Property, plant and equipment at cost	250,000	220,000
7,500,000 ordinary shares in Kwenu Ltd. at cost.	165,000	
6,000,000 preference shares in Kwenu Ltd. at cost	60,000	
Sh.5,000,000 6% debentures of Kwenu Ltd.	5,000	
Current assets	<u>145,500</u>	<u>143,400</u>
	<b><u>625,500</u></b>	<b><u>363,400</u></b>

Authorized and issued share capital fully paid:

Ordinary shares of Sh.10 each.	300,000	100,000
7% non-cumulative preference shares of Sh.10 each.	80,000	80,000
General reserves	40,000	40,000
Profit and loss account	98,500	44,400
Provision for depreciation	60,000	30,000
6% debentures	20,000	20,000

Proposed dividends:

On ordinary shares	30,000	10,000
On preference shares	5,600	5,600
Debenture interest accrued	1,200	1,200
Trade payables	<u>87,000</u>	<u>32,200</u>
	<b><u>625,500</u></b>	<b><u>363,400</u></b>

**Additional Information:**

- Kwetu Limited acquired the shares of Kwenu Limited, cum dividend on 31 December 2020.
- The general reserve of Kwenu Limited was the same on 31 December 2020 as on 31 December 2021.
- The balance on the profit and loss account of Kwenu Limited is made up as follows:

Balance on 31 December 2020	Sh. '000'
	28,000
Net profit for period ended 31 Dec. 2021	<u>32,000</u>
	60,000

Less proposed dividends

15,600  
44,400

4. The stock in trade of Kwenu Limited on 31 December 2021 included Sh.6 million in respect of goods purchased from Kwetu Limited. These goods had been sold by Kwetu Limited at a profit of 20% on the invoice price.
5. The balance on the profit and loss account of Kwenu Limited on 31 December 2020, is after providing for preference dividend of Sh.5,600,000 and a proposed ordinary dividend of Sh.5,000,000 both of which were subsequently paid and credited to the profit and loss account of Kwetu Limited.
6. No entries have been made in the books of Kwetu Limited in respect of the debentures interest due from, or the proposed dividends of Kwenu Limited for the year ended 31 December 2021.

**Required:**

- (a) Determine the number of shares issued by Kwenu Ltd as at 31/12/2020 and the percentage acquired by Kwetu on that day. (3 marks)
- (b) Prepare the cost of control account on 1/12/2020. (4 marks)
- (c) Determine the total dividend receivable by Kwetu Ltd on 31/12/2020 arising from the ordinary and preference shares purchased on that day (3 marks)
- (d) Prepare the consolidated statement of financial position for Kwetu group of companies as at 31/12/2021. (10 marks)

**QUESTION THREE**

The following figures relate to the Profit and Loss Accounts for A Limited and as subsidiaries B Limited and C Limited for the year ended 30 November 2021:

	A Ltd. Sh. '000'	B Ltd. Sh. '000'	C Ltd. Sh. '000'
Sales revenue	84,000	66,000	48,000
Inventory 1 December 2020	(3,824)	(3,757)	(2,822)
Inventory 30 November 2021	4,286	4,124	2,452
Purchases	(50,862)	(49,862)	(38,430)
Distribution cost	(13,440)	(8,050)	(9,600)
Administrative expenses	(8,400)	(3,950)	(6,400)
Taxation: Current	(2,140)	(1,050)	-
Deferred	(1,420)	(300)	2,040
Dividends			
Preference: Interim paid 31 May 2021	-	(450)	-
Final paid 30 November 2021	-	(450)	-
Ordinary: Interim paid 31 August 2021	(3,000)	(500)	-
Final proposed 30 November 2021	(4,500)	(750)	(150)
Dividends received	580	-	-
Retained profit: 1 December 2020	18,300	12,600	9,200
Issued and paid-up share capital:			
Preference share capital	Nil	9,000	Nil
Ordinary share capital	15,000	10,000	3,000

**Additional information:**

1. A Limited acquired 180,000 10% preference shares of Sh.20 each and 800,000 ordinary shares of Sh.10 each on 1 December 2018 when the balance on the profit and loss account of B Limited was Sh.8,100,000. Goodwill of Sh.2,500,000 had arisen on the purchase of these shares.

2. A Limited acquired 180,000 ordinary shares of Sh.10 each in C Limited on 1 March 2020: the purchase price of these shares was to be fixed once the results for the year ended 30 November 2021 to maintain its trustee status.
3. B Limited makes sales to A Limited at its nominal selling price. In the year ended 30 November 2021, B Limited's sales to A Limited amounted to Sh.9,300,000. Stock purchased from B Limited and held by A Limited at cost amounted to Sh.540,000 and Sh.720,000 on 30 November 2020 and 30 November 2021 respectively.
4. A Limited sold an item of plant to B Limited on 1 December 2019 for Sh.2,400,000. A Limited had marked up its cost by 20%. B Limited is depreciating this item of plant to nil residual value on the straight line basis over 10 years with the charge appearing as part of cost of sales.
5. Group policy in relation to unrealized profit on intra-group sales is of assets so to remove the whole of the unrealized profit from the asset and from the company which made the profit on the sale of the asset adjusting the minority interest's share of this profit as appropriate.
6. The impairment of goodwill as per IFRS3, is classified as an administrative expense and deemed to be a charge against the profit of the holding company.

**Required:**

- (a) Determine the unrealized profit on the item of plant sold by A Ltd to B Ltd and the related excess depreciation associated (4 marks)
- (b) Determine
  - (i) B Ltd's cost of sales and the gross profit percentage (3 marks)
  - (ii) The unrealized profit on closing stock on the sales to A Ltd by B Ltd. (3 marks)
- (c) Assuming that cost of control account was prepared and goodwill arising is stated in item1 in additional information above, with no impairment of the goodwill over the periods. Prepare the consolidated income statement for A Ltd Group of companies for the year ending 30<sup>th</sup> November 2021. (10 marks)

**QUESTION FOUR**

- (a) Briefly explain how the following items should be treated in group accounts Ordinary shares not acquired by members of the group of companies Preference shares not acquired by the group Loans, debentures and bonds not acquired by the group (8 marks)
- (b) A holding company is required to present to shareholders both the company individual financial statements and consolidated financial statements. Briefly explain how investment in subsidiaries is measured for presentation in the individual financial statements. In compliance with IFRS9 and IFRS7 (12 marks)