



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

**MAIN CAMPUS**

**UNIVERSITY EXAMINATIONS  
2022/2023 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS**

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

**COURSE CODE: BCA 451**

**COURSE TITLE: CONSOLIDATED ACCOUNTS**

**DATE: Thursday 20<sup>th</sup> April 2023**

**TIME: .12.00-2.00pm**

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**INSTRUCTIONS TO CANDIDATES**

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

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

**QUESTION ONE (30 MARKS)**

- (a) Investment securities held by a firm in its individual financial statements must be classified into one out of the three categories: FVTPL, FVTOCI and Amortized Cost. Briefly explain these three categories, and identify the category often used to account for subsidiaries under IFRS 9 in the financial statements. (10marks)
- (b) The capital of a subsidiary company may consist of ordinary shares, preference shares, reserves of all types and debentures/Bonds. However, the most critical item in accounting for an acquisition is the ordinary shares. Briefly explain why. (6 marks)
- (c) IFRS 3 requires that Firms adopt acquisition accounting for business combination and to account for Full or Acquirers interest in Goodwill or gain on purchase at fair FVTOCI.
- (i) Briefly explain acquisition method (6 marks)
- (ii) Briefly explain how full goodwill/gain or acquirers proportionate interest is computed and accounted for. (8 marks)

**QUESTION TWO (20 MARKS)**

On 1 January 2003, H Ltd., a manufacturer of clay products, made the following investments

- Acquired 60% of the ordinary shares of S Ltd. for Sh.80,000,000
- Acquired 40% of the preference shares of S Ltd. for Sh.25,000,000

The draft accounts of H Ltd., S Ltd. and A Ltd. for the year ended 31 December 2003 were as follows:

<b>Draft profit and loss accounts as at December 2003</b>		
	<b>H Ltd.</b>	<b>S Ltd.</b>
	<b>Sh. "000"</b>	
Turnover	<u>600,000</u>	<u>400,000</u>
Profit before tax	200,000	180,000
Taxation	<u>(60,000)</u>	<u>(45,000)</u>
Profit after tax	140,000	135,000
Less proposed dividends:		
Preference	-	(30,000)
Ordinary	<u>(60,000)</u>	<u>(60,000)</u>
Retained profits	80,000	45,000
Balance brought forward	<u>40,000</u>	<u>60,000</u>
Balance carried forward	<u><u>120,000</u></u>	<u><u>105,000</u></u>

**Additional information:**

1. H Ltd. has not accounted for dividends receivable from S Ltd.
- 2.. Included in the stocks of S Ltd. were goods purchased from H Ltd. for Sh.5,000,000. H Ltd. had marked up the goods by 25% of their cost.

**Required:**

- (a) Calculate the percentage net interest of H and related Goodwill in S Ltd. (5 marks)
- (b) Consolidated profit and loss account and statement of retained earnings, of H Ltd., its subsidiary and associated company, for the year ended 31 December 2003. (15 marks)

**QUESTION THREE (20 MARKS)**

The following is a summary of the balances in the records of Katakwa Limited and its subsidiary JZ Limited as at 31 March 2020.

	Katakwa Ltd Sh. '000'	JZ Ltd. Sh. '000'
Property, plant and equipment at cost	250,000	220,000
7,500,000 ordinary shares in JZ Ltd. at cost.	165,000	
6,000,000 preference shares in JZ Ltd. at cost	60,000	
Sh.5,000,000 6% debentures of JZ 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 capital fully paid:		
Ordinary shares of Sh.10 each.	300,000	100,000
7% non-cumulative preference shares of Sh.10 each.	50,000	80,000
General reserves	98,500	40,000
Profit and loss account	60,000	44,400
Provision for depreciation		30,000
6% debentures		20,000
<b>Proposed dividends:</b>	30,000	10,000
On ordinary shares		5,600
On preference shares		1,200
Debt interest accrued	<u>87,000</u>	<u>32,200</u>
Trade payables	<b><u>625,500</u></b>	<b><u>363,400</u></b>

You ascertain the following:

1. Katakwa Limited acquired the shares of JZ Limited, cum dividend on 31 March 2019.
2. The general reserve of JZ Limited was the same on 31 March 2019 as on 31 March 2020. The balance on the profit and loss account of JZ Limited is made up as follows:

	Sh. '000'
Balance on 31 March 2019	28,000
Net profit for period ended 31 March 2020	32,000
	60,000
	<u>15,600</u>
Less proposed dividends	<b><u>44,400</u></b>

3. The stock in trade of JZ Limited on 31 March 2020 included Sh.6 million in respect of goods purchased from Kwa Limited. These goods had been sold by Katakwa Limited to JZ Limited at mark-up of 20%.
4. The balance on the profit and loss account of JZ Limited on 31 March 2019, 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 Katakwa Limited.
5. No entries have been made in the books of Katakwa Limited in respect of the debentures interest due from, or the proposed dividends of JZ Limited for the year ended 31 March 2020.

**Required:**

A consolidated statement of financial position of Katakwa and its subsidiary company JZ Limited as at 31 March 2020.

(Total: 20 marks)

**QUESTION FOUR (20 MARKS)**

On 1 January 2022, P Ltd., a manufacturer of porcelain products, made the following investments

- Acquired 60% of the ordinary shares of S Ltd. for Sh.80,000,000
- Acquired 40% of the preference shares of S Ltd. for Sh.25,000,000
- Acquired 30% of the ordinary shares of A Ltd. for Sh. 55,000,000

H Ltd. is represented in the board of directors of A Ltd. by two directors.

The draft accounts of H Ltd., S Ltd. and A Ltd. for the year ended 31 December 2022 were as follows:

Draft profit and loss accounts as at December 2022

	H Ltd. Sh. "000"	S Ltd. sh. "000"	A Ltd. Sh. "000"
Turnover	600,000	400,000	350,000
Profit before tax	200,000	180,000	100,000
Taxation	(60,000)	(45,000)	(30,000)
Profit after tax	140,000	135,000	70,000
Less proposed dividends:			
Preference	(30,000)	-	
Ordinary	(60,000)	(60,000)	(40,000)
Retained profits	80,000	45,000	30,000
Balance brought forward	40,000	60,000	50,000
Balance carried forward	120,000	105,000	80,000

**Additional information:**

1. Non-current assets of H Ltd. include the cost of investments in S Ltd. and A Ltd.
2. H Ltd. has not accounted for dividends receivable from S Ltd. and A Ltd. H Ltd. accounts for dividends due to minority interests as a current liability.
3. The assets in A Ltd. are to be revalued upwards by Sh. 60,000,000 to arrive at fair values.
4. Included in the stocks of S Ltd. were goods purchased from H Ltd. for Sh.5,000,000. H Ltd. had marked up the goods by 25% of their cost.

**Required:**

Consolidated profit and loss account and statement of retained earnings, of H Ltd., its subsidiary and associated company, for the year ended 31 December 2022 (20 marks)