The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE
(BCOM YR 4 SEM 1)

UNIT CODE: HBC 2212

UNIT TITLE: ADVANCED FINANCIAL REPORTING

DATE: 14TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Describe the methods of accounting for associate companies during consolidation of financial statements (4 marks)

(b) Describe the methods of translation of foreign currency financial statements and advice on the method (s) to adopt as per IFRs (8 marks)

(c) Describe the guidelines for treatment of dividends during consolidation (6 marks)

(d) K Ltd acquired M Ltd's 100% equity shares on 1st December 2015 for shs 200 million when the balance sheet of M was showing the following

Assets:	
Non-current assets	Shs 291.5 million (fair value 495 million)
Marketable securities	Shs 100 million (fair value sh 90 million)
Deferred receivable	Shs 99 million (expected in 6 years' time)
Stock –finished goods	Shs 150 million (expected in 6 years' time)
Stock – W.I.P	Shs 20 million (completion costs shs 4 million, selling costs shs 1 million and mark up 35%
Cash	Shs 24 million
Financed by:	
Ordinary Share capital	Shs 600 million
Deferred payables	Shs 84.5 million (expected to be paid in 6 years' time)

Required:

Assuming discounting rate of 12% establish the goodwill arising (12 marks)

QUESTION TWO

(a) The balance sheet of H Ltd, and A Ltd showed the following information as at 31st December 2015

	H Ltd	S Ltd	A Ltd
Assets	Shs M	Shs M	Shs M
Property plant and equipment	140	61	170
Investments	200	65	-
Current assets	110	114	60
	450	**240**	**230**
Financed by			
Ordinary share capital	200	80	100

Retained earnings	120	60	80
Accounts payable	100	100	50
	450	240	230

Note:

i. On 1st January 2013 S Ltd acquired 35M ordinary shares in A Ltd at sha 65M when the retained earnings in A Ltd was shs 40 M

ii. ON 1st January 2014 H Ltd acquired 64M ordinary shares in S Ltd at shs 120 M and 40M shares in A Ltd at shs 80M. The retained earnings in S ltd and A ltd were shs 50M and 60M on 1st January 2014

iii. S Ltd sold goods to H ltd which cost shs 6M for shs 8M and by year end 25% of these goods were unsold to customers

iv. H Ltd sold equipment to S Ltd costing Shs 13M for Shs 18M. S Ltd depreciates its equipment at 20% per annum on cost

v. H ltd owned H ltd sh10M by the year end

vi. Goodwill is to be shown as a permanent asset in the books of the group

Required:

Pass the relevant journal entries and prepare to group balance sheet as at 31st December 2015 (20 marks)

QUESTION THREE

(a) H Ltd acquired 80% of S ltd's ordinary shares 1st July, 2015 when reserves f S ltd were shs 330,000. The draft financial statements of the companies showed the following:

Statement of comprehensive income for year ended 31st December 2015

	H Ltd	**S ltd**
	Shs 000	**Shs 000**
Turnover	8700	3600
Cost of sales	5400	2640
Gross profit	**3300**	**960**
Expenses	1000	510
Operating profit	**2300**	**450**
Dividend received	24	-
Dividend receivable	48	-
Profit before tax	2372	450
Corporation tax	900	335
Profit after tax	**1472**	**225**
Dividend paid	210	30
Proposed dividends	390	60
Retained profits for the year	872	135
Retained profits (b/f)	2294	645
Retained profits c/f	**3166**	**780**

Statement of financial position as at 31st December 2015

	H ltd	**S ltd**
Assets:	**Shs 000**	**Shs 000**
Non-current assets	9090	2395
Investment in S ltd	2100	-
Inventory	1710	465
Accounts receivable	990	360
Dividends receivable	48	-
Bank	294	60

	14232	3480
Financed by:		
Ordinary shares of shs 1 each	6000	1500
Revenue reserves	3162	870
Debentures	3000	600
Creditors	780	315
Taxation	900	225
Proposed dividends	390	60
	14232	**3480**

Notes

i. H ltd sold goods for shs 60,000 at cost plus 25% to S ltd during the year and by the balance sheet date 2/3rds of the goods had been sold to third parties

ii. H ltd bought equipment from S ltd at shs 90,000 at cost plus 20% to be depreciated over a period of 3years

iii. As at the balance sheet sate H ltd owned S ltd sh 40,000

Required

Prepare the group statements of comprehensive income and financial position as at 31st December 2015 (20 marks)

QUESTION FOUR

M ltd acquired 90% of the ordinary shares of N ltd in 2015 and the details were as follows;

Group statement of comprehensive income for year ended 31st December 2015

Sales	1638
Cost of sales	882
Gross profit	756
Operating expenses	408
Operating income	348
Income attributable to non-controlling interest	12
Income attributable to controlling interest	336
Dividends paid	108
Retained profit	228

Statement of financial position as at 31st December

	2014	**2015**
Assets	**shs '000'**	**'000'**
Plant, machinery & equipment at cost	735	1212
Long term investments	456	474
Goodwill	60	60
Inventory	330	303
Accounts receivable	276	360
Cash at bank & in hand	180	291
	2037	**2700**
Current liabilities		
Accounts payable	180	279
Accrued expenses	297	267
Non-controlling interest	60	66
Financed by		
Ordinary share capital	500	560
Share premium	120	420
Long term loan	100	100

Retained profits	780	1008
	2037	**2700**

Additional information

i. Dividend payment sof shs 108,000 were from Z ltd. F ltd did not declare dividends during year 2015
ii. Depreciation of shs 78,000 and interest expense of sh 6,000 are included in operating expenses

Required:

Prepare the group cash flow statement (20 marks)

QUESTION FIVE

(a) The following balances were extracted from the books of S ltd for the year ended 31st December 2015

	Shs '000'
Purchased of raw materials	39310
Purchase of equipment	15000
Depreciation expense	1350
Interest expense	700
Investment income	620
Raw material closing stock	6800
Non-controlling interest in subsidiary's	
Profits	400
Ordinary dividends	680
VAT – included in turnover	20000
Wages, salaries and pension	10000
Corporation tax	1540
Turnover	64270

Required:

Prepare value added statement (10 marks)

(b) As at 31st December 2015, a US subsidiary that is based that is based in Kenya has the following details in its statements of financial position; cash shs 300m, accounts receivable shs 450m, inventory shs 600M, non-current assets shs 750M, current liabilities shs 300M, longer term debts shs 900M, reserves shs 900M, the historical exchange rate was \$1=shs 100 while the current exchange rate was \$=shs 90.

Required:

Translate the statement of financial position using: current non-current method monetary/non-monetary method for consolidation purpose (10 marks)