KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2014/2015

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 302: ADVANCED ACCOUNTING II

DATE: Sunday, 3rd May, 2015 TIME: 2.00 p.m. – 4.00 p.m.

INSTRUCTIONS:

Answer **ALL** questions.

Q.1 a) With reference to IAS 19 (Retirement Benefit) define the following terms:

i) A defined contribution retirement benefit plan. (2 marks)

ii) A final pay plan. (2 marks)

iii) Vested employee benefits. (2 marks)

iv) Experienced adjustment. (2 marks)

b) Gado Construction Ltd plan to construct an Ultra Modern building for Waga Business Complex. The contract is expected to be completed within a year. The building was completed as scheduled and the payment made during the year were as follows:-

	Shs.
1 Jan 2014	5,000
1 March 2014	10,800
30 April 2014	12,000
1 July 2014	16,000
1 September 2014	9,000
31 October	7,200
1 December 2014	4,800

On 31st December 2014 the following debts were outstanding:

1. Sh.28 million 18% corporate bond secured on 1st Jan 2014 with interested compounded semi-annually. The bound was negotiated specifically for constructing the building in the premises.
2. Shs.20 million 20% bank overdraft negotiated on 1st Jan 2008 with simple interest and interest payable annually on 31st December.
3. Shs.12,000 12% debenture redeemable on 31st December 2017 with simple interest and interest payable annually on 31st December.
4. Shs.100 million 10% 10 year note dated 31st December 2009 with simple interest and interest payable annually on 31 December.

Required:

The amount of interest to be capitalized and recognized in income statement for the year ending 31st December 2014. (15 marks)

(Total: 23 marks)

Q.2 Amka Investment Ltd has three cash generating units based on Mombasa (M) Nakuru (N) Eldoret (E) with carrying amount of Shs.400 sh.500 and 600 respectively as at 31st December 2010. These carrying amount does not include goodwill. Amka Invvestment Ltd is experiencing a lot of changes in both political and technological environment and conducts annually impairment tests of each of its cash generating units.

The operations of MNE are conducted at the headquarter which is situated in Embakasi. The headquarter is composed of headquarter building and an operation research centre with carrying amount of Shs.1,500 and Ksh.3000 respectively.

Additional Information:

i) The expected remaining life of cash generating unit M is 5 years and that of N and E is 10 years. The headquarter is depreciated on a straight line method with Nill residual value.

ii) The carrying of the research centre which cannot be allocated on a reasonable and consistent basis to the individual cash generating units is under review.

iii) The recoverable amount of each cash generating unit is based on its value in use.

iv) The discount rate is 20%

v) Ignore taxation

(20 marks)

(Total: 20 marks)

Q.3 Bonga Ltd acquired 75% shares of Fugo Ltd at a cost of Ksh.113,000,000 cum-div when the reserve stood at Sh.160,000,000 on 1st May 2013. The statement of financial position of the two companies are as follows:

Statement of financial position as at 31 December 2014.

	Bonga Ltd	Fugo Ltd
Non current asset	Shs.'000'	sh.'000'
Tangible assets	133,000	160,000
Investment in Fugo Ltd	113,000	-
Current assets	15,000	16,000
Current Liabilities	(11,000)	(8,500)
	250,000	167,500
	======	======

Equity and liabilities

Ordinary share capital	160,000	100,000
General reserve	10,000	7,500
Profit and Loss	80,000	60,000
	250,000	167,000
	======	======

Additional Information:

a) Bonga Ltd believed that fair value and the book value was equal except for an asset that had cost Fugo Ksh.5 million. This asset had been depreciated for a period of three years prior to acquisition and was having a fair value of Ksh.4 million at the date of acquisition. Bonga Ltd disposed this asset at shs.3.5 million on 31st October 2013 and replaced immediately with another one. Assume depreciation occurs evenly.

b) Fugo Ltd declared a dividend for the year on 31st December 2013 amounting to Ksh.4.5m. but was not accounted for in the books

c) During the year Bonga Ltd transferred goods to Fugo Ltd making profit of 20 million and all these goods remained unsold at the end of the year.

d) It is the group policy to test goodwill for impairment annually and frequenting if there are changes in the circumstances or indication that it may be impaired.

Required:

Consolidated statement of financial position. (20 marks)

Q.4 i) Briefly explain any 5 forms of capital reorganization (5 marks)

ii) With reference to IAS (2) inventory highlight any 2 disclosures in financial statement. (2 marks)

(Total: 7 marks)