

BBM 304/EDB 311

by



OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2021 /2022 ACADEMIC YEAR

3rd YEAR 2nd SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS

MANAGEMENT/ EDUCATION ARTS

COURSE CODE: BBM 304/EDB 311

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING I

DATE: FRIDAY 10TH JUNE 2022

TIME: 2.00PM-5.00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 5 PRINTED PAGES

PLEASE TURN OVER

REGULAR-MAIN EXAM**BBM 304/EDB 311 ADVANCED FINANCIAL ACCOUNTING I****STREAM BBM /BED (Arts)****Duration 3Hours****INSTRUCTIONS TO CANDIDATES**

- i. Answer Question one and any other two questions
- ii. All working must be shown
- iii. Do not write on the question paper

QUESTION ONE (30 MARKS)

- a) Explain five actions of an insolvent debtor that would compel a creditor to file a bankruptcy petition against the insolvent debtor (10mks)
- b) Differentiate internal capital reconstruction and external capital reconstruction (2mks)
- c) Describe the treatment of the following in the context of consolidated balance sheet in group accounts (3 marks)
 - i. Unrealized profit
 - ii. Revaluation of assets
 - iii. Dividends
- d) Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2022 before reconstruction

	Sh.		Sh.
Authorised Share Capital:		Fixed Assets:	
1,50,000 Equity Shares of sh. 5 each	750,000	Goodwill	200,000
Subscribed and Paid up Capital:		Building	100,000
50,000 Equity Shares of sh 5 each	250,000	Plant	100,000
1,00,000 Equity Shares of sh. 5 each, sh.4 per share paid up	400,000	Computers	250,000
Secured Loans:		Profit and Loss A/c-Loss	200,000
12% First Debentures	50,000		
12% Second Debentures	100,000		
Current Liabilities:			
Trade payables	50,000		
	850,000		850,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

12% First Debentures	30,000	20,000
12% Second Debentures	70,000	30,000
Trade Payables	20,000	10,000
	120,000	60,000
Fully paid up Sh. 5 shares	30,000	20,000
Partly paid up shares (Sh. 4 paid up)	50,000	50,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

1. Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of sh. 2 each.
2. Mr. X is to cancel Sh. 70,000 of his total debt (other than share amount) and to pay Sh. 20,000 to the company and to receive new 14% First Debentures for the balance amount
3. Mr. Y is to cancel Sh. 30,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
4. The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the

- i. Journal Entries to record the reconstruction (7 marks)
- ii. The statement of financial position of the reconstructed company (8 marks)

QUESTION TWO (20 MARKS)

- a) Explain the terms receivership and liquidation (4mks)
- b) Give detailed view of classification of liabilities in the content of bankruptcy proceedings (6mks)
- c) D Ltd. went into voluntary liquidation on 31st March, 2021 when their Balance Sheet read as follows:

Liabilities :	Sh
Issued and Subscribed Capital :	
15,000, 10% cumulative preference shares of Sh. 100 each fully paid	1500,000
7,500 equity shares of Sh. 100 each, Sh. 75 paid	562,500
22,500 equity shares of Sh. 100 each, Sh. 60 paid	1350,000
15% Debentures secured by a floating charge	750,000
Interest outstanding on Debentures	112,500
Creditors	956,250
Assets:	Sh
Land and Buildings	750,000
Machinery and Plant	1,875,000
Patents	300,000
Stock	402,500
Sundry Debtors	825,000
Cash at Bank	225,000
Profit and Loss A/c	853,750

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of shillings 38,000. The assets were realised as follows: Land and Buildings Sh. 900,000 Machinery and Plant Sh. 1500,000, Patents Sh. 225,000, Stock Sh. 450,000, Sundry Debtors Sh. 600,000. The expenses of liquidation amounted Sh. 27,250. The liquidators is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures were made on 30th September, 2021,

REQUIRED

The Liquidator's Final Statement of Account. (10 marks)

QUESTION THREE (20 MARKS)

- a) Explain the term goodwill which often appears in connection with business combination. What is negative goodwill? (4 marks)
- b) Explain the following terms as used in group accounts. (6 marks)
- Pre-acquisition profits
 - Minority interest
 - Intercompany trading
- c) H Ltd owns 100% shares of S Ltd. The summarized income statement of the two companies for the year ending 31st December 2021 are given as under:

	H Ltd (sh 000)	S Ltd (sh 000)
Turnover	2,000	850
Cost of sales	(1300)	(600)
Gross profit	700	90
Expenses	250	160
Taxation	450	(73)
Profit after taxation	230	87
Retained profit b/f	500	200
Retained profit c/f	730	287

Additional information

- Closing stocks of H Ltd and S Ltd as on 31st December 2021 were sh 280,000 and sh 150,000 respectively
- During the year H Ltd sold goods costing sh 150,000 at a profit of 25% on selling price to S Ltd 50% of these goods were unsold at the year end.

Required:

Prepare the consolidated income statement of H Ltd as at 31st December 2021. (10 marks)

QUESTION FOUR (20 MARKS)

A and B are in partnership and they filed for a bankruptcy petition on 31st December 2021. The following particulars were extracted from their books as at that date:

	Firm (sh)	A (sh)	B (sh)
<u>Non-current and current Assets</u>			
Mortgage on Building	30,000	-	-
Bank overdraft	30,000	-	-
Sundry creditors	124,000	15,000	29,000
Preferential creditors	1,000	-	-
Capitals:			
A	30,000	-	-
B	20,000	-	-
Surplus	-	50,000	11,000
	<u>235,000</u>	<u>65,000</u>	<u>40,000</u>
<u>Capital and Liabilities</u>			
Building	60,000	-	-
Plant	65,000	-	-
Furniture	4,000	10,000	12,000
Debtors	50,000	-	-
Stock	55,000	-	-
Investments	-	25,000	1,000

Cash	1,000	-	-
Capital in the firm	-	30,000	20,000
	<u>235,000</u>	<u>65,000</u>	<u>40,000</u>

Additional information:

1. The bank overdraft was secured by a second mortgage on building and on B's investments
2. The amounts expected to be realized were as follows;

	Firm (sh)	A (sh)	B (sh)
Building	45,000	-	-
Plant	30,000	-	-
Furniture	1,500	6000	8,000
Stock	31,000	-	-
Debtors	30,750	-	-
Investments	-	20,000	3,000

Required:

- a) Statement of affairs of the firm and the partners A and B as at 31 December 2021 (10 marks)
- b) Deficiency account for the firm and the partners A and B as at 31 December 2021. (10 marks)

QUESTION FIVE (20 MARKS)

- a) One or several creditor may jointly make petitioner against a debtor in court and of hearing date determined. Explain six circumstances under which the creditor may make the petitioner (12 marks)
- b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for Sh. 25,00,000 against which payment was made as follows:

Liquidation	Sh. 25,000
Secured Creditors	Sh. 10,00,000
preferential Creditors	Sh. 75,000

The amount due to Unsecured Creditors was Sh. 1,500,000. You are asked to calculate the total Remuneration payable to Liquidator. (8 marks)