PIONEER INTERNATIONAL UNIVERSITY

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UNIVERSITY EXAMINATIONS

ACADEMIC YEAR: 2021/2022 **SEMESTER:** SEP-DEC

UNIT CODE: ACCT 4110 **UNIT NAME:** FINANCIAL REPORTING

DATE: DEC 2021 **TIME:** 2 HOURS

Instructions: Answer question ONE and any other TWO questions.

QUESTION ONE (30 Marks)

a) X Limited acquired 75% of the ordinary shares of Y Limited on January 1, 2008. The summarized Income Statements of the two companies for the year ending December 31, 2010 are as follows:

	X Limited (Sh. 000)	Y Limited (Sh. 000)
Sales	78,000	42,000
Cost of sales	(33,000)	(24,000)
Gross profit	45,000	18,000
General and administrative expenses	(11,000)	(6,000)
Selling and distribution expenses	(3,000)	(2,000)
Profit before taxation	31,000	10,000
Taxation	(9,000)	(3,000)
Profit after taxation	22,000	7,000
Retained earnings b/f	88,000	16,000
Retained earnings c/f	110,000	23,000

Additional information:

(i) (During the year, Y Limited sold goods worth of Sh.5, 000,000 to X Limited at cost plus 25% profit. 50% of the goods remained in the inventory of X Limited as of December 31, 2010.

(ii) Y Limited has proposed a dividend of Sh.2, 000,000 to its ordinary shareholders on December 31, 2010.

(iii) At the time of acquisition, Y Limited had pre-acquisition profits of Sh.5, 000,000.

Required:

i. Prepare Consolidated Statement of Comprehensive Income of X Limited for the year ended December 31, 2010 (13 marks)

b) Identify the following transactions as operating, investing, financing or otherwise (17 marks)

1.	Cash received from customers	
2.	Cash sales	
3.	Cash proceeds from disposal of PPE	
4.	Right issue of shares	
5.	Repayment of loan	
6.	Dividend received by stock market broker	
7.	Dividend paid	

8.	Salaries paid to employees	
9.	Interest on debentures paid	
10.	Interest received by a trading entity on some investment	
11.	Interest received by a bank on loans advanced	
12.	Taxes paid	
13.	Purchase of a patent and software	
14.	Advance paid to supplier	
15.	Depreciation	
16.	Bonus issue of shares	
17.	Impairment loss on a plant	

QUESTION TWO (20 Marks)

a) BC Limited commenced business on January 1, 2016 with an opening share capital of $2 million. The income statement and closing balance sheet follow:

SPL&OCI for the year ended December 31, 2016

	$M
Revenue	32
Cost of sales	(10)
Gross profit	22
Distribution costs	(8)
Administrative expenses	(2)
Profit before tax	12
Tax expense	(4)
Profit for period	8

Statement of financial position as at December 31, 2016

	$M
Share capital	2
Retained earnings	8
	10
Trade payables	4
Total equity and liabilities	14
Freehold land (acquired December 31, 2016)	8
Inventories	4
Trade receivables	2
Total assets	14

The functional currency is the $, but the entity wishes to present its financial statements using the Euro as its presentation currency. The entity translates the opening share capital at the closing rate. The exchange rates in the period were:

	€1=
January 01, 2006	$1.0
December 31, 2006	$2.0
Average rate	$1.5

Required:

i. Translate the financial statements from the functional to presentation currency (20 Marks)

QUESTION THREE (20 Marks)

a) Paint acquired 80% of the share capital of Saint two years ago, when the reserves of Saint stood at Sh.125, 000. Paint paid initial cash consideration of Sh. 1 million. Additionally Paint issued 200,000 shares with a nominal value of Sh. 1 and a current market value of Rs.1.80. It was also agreed that Paint will pay a further Sh.500, 000 in three years' time. Current interest rates are 10% per annum. The appropriate discount factor for Sh. 1 receivable three years from now is 0.751. The shares and deferred consideration have not yet been recorded.

Statement of financial position of Paint and Saint as at 31st December 2004

	Paint	**Saint**
Investment in Saint at cost	1,000	
Non- current assets	5,500	1,500
Current assets		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

At acquisition the fair values of Saint's non-current assets exceeded their book value by Sh.200, 000. They had a remaining useful life of five years at this date. The consolidated goodwill has been impaired by Sh.258, 000 of its value. The Paint group values the non- controlling interest using the full goodwill method. At the date of acquisition the fair value of the 20% non-controlling interest was Sh.380, 000.

Required:

i. Prepare the consolidated statement of financial position at 31 December 2004 (17 marks)

b) What would be the effect on statement of cash flows of the following transactions? (3 marks)

	Ksh.	Effect?
Cash deposited in bank account	100,000	
Sale of prize bonds	500,000	
Investment in treasury bills of government	800,000	

QUESTION FOUR (20 Marks)

a) The trial balance of BAC Limited at 31 December 2015 is as follows.

	Ksh in million	
	Dr	**Cr**
Patent rights	60	
Work-in-progress, 1 January `2015	125	
Leasehold buildings at cost	300	
Ordinary share capital		600
Sales		1,740
Staff costs	260	
Accumulated depreciation on buildings, 1 January 2015		60
Inventories of finished games, 1 January 2015	155	
Consultancy fees	44	
Directors' salaries	360	
Computers at cost	50	
Accumulated depreciation on computers, 1 January 2015		20
Dividends paid	125	
Cash	440	
Receivables	420	
Trade payables		92
Sundry expenses	294	
Accumulated profits, 1 January 2015		121
	2,633	**2,633**

The following information is also relevant.

i. Closing inventories of finished games are valued at Ksh. 180 million. Work in progress has increased to Ksh. 140 million.
ii. The patent rights relate to a computer program with a three-year lifespan.
iii. On 1 January 2015 buildings were revalued to Ksh. 360 million. This has not yet been reflected in the accounts. Computers are depreciated over five years. Buildings are now to be depreciated over 30 years.
iv. An allowance for bad debts (irrecoverable debts) of 5% is to be created.
v. There is an estimated bill for current tax of Ksh. 120 million which has not yet been recognized.

Required

i. Prepare a statement of comprehensive income (according to IAS 1) for the year ended 31 December 2015 and a statement of financial position as at that date **(20 marks)**
   Note: Ignore transfer of incremental depreciation

QUESTION FIVE (20 Marks)

a) The accounting conceptual framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. Discuss the purpose of the conceptual work (5 Marks)
b) Explain the circumstances in which a parent company may need not to consolidate financial statements (10 Marks)
c) Discuss the fundamental principles of Ethics and describe the guidance expressed in respect of principle of integrity (5 Marks)