

REGULAR – MAIN EXAM

BBM 404/ EDB 411: ADVANCED ACCOUNTING II

STREAM: BBM (Accounting)/ BED (Arts)

DURATION: 3 Hours

INSTRUCTION TO CANDIDATES

- i. Answer question ONE and any other TWO questions*
- ii. Do not write on the question paper.*

QUESTION ONE;

- a. Cite and explain the objectives of the Bankruptcy and insolvency Act of the laws Kenya. (10 marks)
- b. Highlight and explain circumstances in which a parent company may opt not to consolidate its subsidiary financial statements as a Group report. (10 marks)

c) H Ltd owned S Ltd since the date of incorporation of S Ltd. The balance sheets of the two companies as at 31 December 2020 is as follows.

	H Ltd		S Ltd	
Non Current assets	sh	sh	sh	sh
Tangible - PPE		35,000.00		45,000.00
Investment in S Ltd		45,000.00		
		<hr/>		<hr/>
		80,000.00		45,000.00
Current assets				
Inventory	16,000.00		12,000.00	
Accounts receivables	8,000.00		9,000.00	
Cash at bank	1,000.00	25,000.00	-	21,000.00
TOTAL ASSETS		<hr/>		<hr/>
		105,000.00		66,000.00

Share Capital		70,000.00		40,000.00
Retained profits		<u>11,000.00</u>		<u>19,000.00</u>
		81,000.00		59,000.00
Non Current Liabilities				
10% Loan Stock		10,000.00		-
Current Liabilities				
Bank Overdraft	-		3,000.00	
Accounts Payable	<u>14,000.00</u>	<u>14,000.00</u>	<u>4,000.00</u>	<u>7,000.00</u>
		<u>105,000.00</u>		<u>66,000.00</u>

Required;

Prepare the consolidated balance sheet of H Ltd and S Ltd as at 31 December 2020

(10 marks)

QUESTION TWO

Hasara Ltd makes its accounts each year 31 October and has been trading at a loss. On 31 October 2020, a resolution for a voluntary liquidation was passed. The balance sheet as at that date was as follows.

	Sh. '000'	Sh. '000'	Sh. '000'
Non Current assets			
Freehold property			11,000
Plant and machinery			<u>2,750</u>
			13,750
Current assets:			
Stock		8,750	
Debtors		13,375	
Cash		<u>125</u>	
		22,250	
Current liabilities:			
Bank overdraft	3,750		
Creditors	11,250		
Interest payable (5% debentures)	<u>500</u>	<u>(15,500)</u>	<u>6,750</u>
			<u>20,500</u>
Paid up capital:			
10,000 10% cumulative preference shares of Sh.500 each fully paid			5,000
25,000 Ordinary shares of Sh.500 each fully paid			12,500
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			<u>2,500</u>
			20,000
Revenue reserves: profit and loss account			(9,500)
Non-Current liabilities:			
5% debentures			<u>10,000</u>
			<u>20,500</u>

Additional information:

1. The debentures are secured by a floating charge on the asset and undertaking of the company.
2. The bank overdraft is secured by a fixed charge on the company's freehold property.

3. The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of Sh.500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.

4. The creditors include:

	Sh. '000'
Directors fees for one year	1,000
Rates for six months to 31 October 2002	125
Manager's salary for October 2002	
Wages for 15 employees	
Pay As You Earn (PAYE)	

5. The assets realized the following amounts:

Freehold property	12,500
Plant and machinery	2,000
Stock	6,250
Debtors	12,250

6. The expenses of liquidation amount to Sh.125,000 and the liquidator's remuneration was fixed at Sh.500,000.

Required:

The liquidator's statement of account showing in order of priority, the payments made and the computation of any calls to be made. (20 marks)

QUESTION THREE

a) Explain the procedure for the composition and scheme of affairs arrangement (10 marks).

b.) Akili and Bidii trade in a partnership under the name of Jaribio Enterprises. One of the creditors of the partnership presented a petition in bankruptcy against the partnership and the High Court made out a Receiving Order on 31 October 2020.

The assets and liabilities of the joint and separate estates on that date were as follows:

Values	Book Value			Estimated		Realisable	
	Jaribio	Akili	Bidii	Jaribio	Akili		
Bidii	Sh. '000'	Sh. '000'	Sh. '000'	Sh. '000'	Sh. '000'		
Land and buildings	11,750	3,000	4,500	13,500	4,800		
5,000							
Plant and equipment	13,640			8,500			
Furniture & household							
Goods		600	850		200		
420							
Stock	16,300			9,700			
Debtors	10,790				4,750		
Partnership capital		4,000	6,000				
Investments		2,000	1,000		3,350	800	
Cash	200	100	300				
Motor car		900	1,500		300	500	
	<u>52,680</u>	<u>10,600</u>	<u>14,150</u>				
Capital accounts: A	4,000						
B	6,000						
Creditors	24,320	260	180				
Bank overdraft	8,360						
Loans secured on land							
And buildings	10,000	2,500	3,000				
Loans secured on cars		600		1,000			
Personal surpluses		7,240	9,970				
	<u>52,680</u>	<u>10,600</u>	<u>14,150</u>				

Additional information:

1. Of Jaribio's creditors, Sh.700, 000 are preferential.
2. Jaribio's bank overdraft was secured by a second mortgage on the partnership, land and buildings and by the personal guarantee of Akili together with the deposit of his investments.
3. Akili and Bidii share profits or losses equally.

Required:

Statements of Affairs and Deficiency or Surplus Accounts for the firm and for the separate personal estates of the partners, using the format laid down in the Bankruptcy Act and showing the legal position in relation to the double proof. (10 marks)

QUESTION THREE

- a. A court may adjudge the debtor bankrupt on the application of the O.R. or any creditor in the following.

Required;

- b. List FIVE cases where a court can adjudge a debtor bankrupt. (10marks).

Show FIVE powers of the Official Receiver as enshrined in the Bankruptcy act (10marks).

QUESTION FOUR

- a. Detail the procedures and event that follow after issues of a winding up order (10marks).
- b. The following balance sheets relate to H Ltd and S Ltd as at 31 December 2020.

	H Ltd		S Ltd	
Non Current assets	Sh	shs	Sh	sh
Tangible	Land	100,000.00		50,000.00
	Buildings	150,000.00		80,000.00

	Plant		80,000.00		50,000.00
			<u>330,000.00</u>		<u>180,000.00</u>
	Investment in S Ltd		100,000.00		
	Current assets				
	Inventory	60,000.00		40,000.00	
	Accounts receivables	80,000.00		50,000.00	
	Cash at bank	25,000.00	165,000.00		90,000.00
	TOTAL ASSETS		<u>595,000.00</u>		<u>270,000.00</u>
	Ordinary Shares of £1 each		200,000.00		100,000.00
	Capital Reserves		100,000.00		40,000.00
	Retained profits		90,000.00		50,000.00
			<u>390,000.00</u>		<u>190,000.00</u>
	Non Current liabilities				
	10% Loan Stock		100,000.00		20,000.00
	Current Liabilities				
	Bank Overdraft	-		10,000.00	
	Accounts payables	80,000.00		30,000.00	
	Proposed dividends	25,000.00	105,000.00	20,000.00	60,000.00
			<u>595,000.00</u>		<u>270,000.00</u>

Additional information

H ltd acquired the investment in S Ltd on 1 Jan 2020 as follows:

	sh
60% Ordinary shares	90,000.00
Loan	
Stock	10,000.00
	<hr/>
	100,000.00
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On the date of acquisition the capital reserves of S ltd amounted to shs 10,000 and retained profits amounted to sh 5,000. On the same date the fair values of land and buildings were Sh 10,000 and sh 20,000 respectively above the carrying amounts. Although no depreciation is provided on land , buildings are depreciated at 5% p.a. on cost.

Included in the inventory of H Ltd are goods purchased from S Ltd at a selling price of Sh 15,000 to S Ltd. S ltd reported a profit of 50% on cost.

Included in the plant of S Ltd is plant bought from H Ltd on 01.01.20X1 at a price of Sh 20,000. H Ltd reported a profit of a third on cost. The group provides depreciation on 30% on reducing balance.

H Ltd has not yet accounted for it's share of proposed dividends in s Ltd.

Included in the accounts payable of H Ltd is an amount of sh25,000 due to S Ltd. This amount stood at sh 28,000 in the books of S Ltd. The difference was due to the following items:

- Cash sent by H Ltd to S Ltd of sh1,000.
- Goods sent to H Ltd by S Ltd but not yet received by H Ltd. Selling price to H Ltd was sh 1,200.
- Administration fees of sh 800 charged by H Ltd to S Ltd but not yet recorded by S Ltd.

Assume that goodwill on consolidation has been impaired by 40%.

Required:

Prepare the consolidated balance sheet of H Ltd and its subsidiary as at 31.12.2020. (10marks).

QUESTION FIVE;

- a) B LTD, whose head office is in Mombasa, operates a branch at Malindi. All goods are purchased by head office and invoiced to and sold by the branch at cost plus $33\frac{1}{3}\%$. Other than a sales ledger kept in Malindi, all transactions are recorded in the books in Mombasa. The following particulars are given of the transactions at the branch during the year ended 30th June 2020.

	Shs
Stock on hand, 1 st July 20X6 at invoice price	308,000
Debtors on 1 st July 20X6	276,220
Stock on hand, 30 th June 20X7 at invoice price	276,360
Goods sent from Mombasa during the year at invoice price	1,736,000
Credit sales	1,470,000
Cash sales	168,000
Returns to head office at invoice price	70,000
Invoice value of goods stolen	42,000
Bad debts written off	10,360
Cash from debtors	1,568,000
Normal loss at invoice price due to wastage	7,000
Cash discount allowed to debtors	29,960

Any further loss should be treated as a loss of cash.

Required; Branch trading, profit and loss Account.

(10 marks)

- b) Explain the purpose of a deficiency account

(10 marks)