FINANCIAL REPORTING

REVISION KIT

Acknowledgment

We gratefully acknowledge permission to quote from the past examination papers of the following bodies: **Kenya Accountants and Secretaries National Examination Board (KASNEB); Chartered Institute of Management Accountants (CIMA); Association of Chartered Certified Accountants (ACCA).**

Contents

Part I: Introduction

The examination approach of the Kenya Accountants and Secretaries Examination board has changed radically with effect from the June 2000 examination. The new syllabus is more demanding on students" knowledge, skills and examination technique.

This revision kit is designed to supplement other reference materials and the study texts supplied by the Distance Learning Centre of the KASNEB PANEL. Singular use may prove inadequate and therefore effective study of the subject should be done prior to use of this kit. The aim is to improve both knowledge and examination technique by providing plenty of opportunity for structured practise of past examination questions reflecting the new examination scheme.

Remember that Accounting papers not only examine candidates on knowledge but also the ability to present information in form of good reports and adapt to practical challenges of meeting strict deadlines. Therefore a candidate must be well prepared to enhance the chances of passing the examination. To achieve a pass or score highly thorough knowledge of the syllabus coupled with skilled presentation of solutions i.e. either proper formats with or and concise explanations to theory questions is essential.

The change to application of International Financial Reporting Standards also poses an additional challenge to the students as it does to professionals in the industry. It is especially demanding on the students since International Financial Reporting Standards are dynamic and the student must keep abreast with the changes.

The edition of financial reporting revision kit includes the following features:

a) Approach to Examinations
b) The syllabus;
c) An analysis of recent examinations;
d) Topical Guide

All question are provided with full suggested solutions and tutorial notes prepared by KASNEB PANEL.
If you attempt all the questions in the kit together with the mock examinations you will have written answers equivalent to more than ten examinations. So if you write good answers to all of them, you should be well prepared for the final exam. Good luck!

Approach to Examinations

Ensure that you have covered the syllabus adequately either by the Distance Learning Centre study packs or other reference materials. It is very important to maintain a systematic approach to your studies, right up to your examination. Whether it is through private study, distance learning or attending classes, please develop a proper exam strategy.

The following should be the recommended guide:

1. Start your practise and revision with a topic that you find straight forward. This boosts your morale and gives you a bit of self-confidence.
2. The kit includes a bank of illustrative questions covering all aspects of the syllabus. Most of these questions are borrowed from previous examination sittings. Attempt these questions and you may approach the questions by starting with the syllabus areas you are comfortable with. Please do not refer to the solutions provided until you have completed.
3. Compare your answers to the suggested solutions provided. If your solutions are correct then well done. If they are not correct then no problem. Check the solution provided and study carefully how the solution was arrived at.
4. Re attempt the questions again (may be at a later date) and this time check your speed. Ensure that your speed is improved and pay attention to formats and presentation. Your solutions should be neat and well laid out.
5. Once the entire syllabus has been revised and you are confident that you can answer questions successfully, attempt the three mock exams at the end of the kit. Ensure that you sit the papers under strict exam conditions. It may not be wise to refer to the mock exams at any time before you are ready to attempt them. Refrain from turning to these pages until later.
6. The purpose of practising the mock exams is for you to gain experience on the methods of selecting questions, deciding on the order in which you will attempt, managing your time well and producing quality answers. Once you have finished each mock paper and checking solutions please bear in mind that in addition to the experience gained, please assess your performance to determine whether you may be having problems in any of the syllabus areas. Then you can revise again.

Syllabus

PAPER NO. 10 FINANCIAL REPORTING

OBJECTIVE

To equip the candidate with knowledge on the preparation of financial statements and reports for various organisations.

10.0 SPECIFIC OBJECTIVES

A candidate who passes this subject should be able to:

- explain the laws relevant to accounting
- prepare partnership accounts
- prepare branch accounts
- prepare financial statements for business combinations
- prepare bankruptcy, receivership and liquidation accounts
- prepare executorship and trust accounts.

CONTENTS

10.1 Legal and institutional Framework of Financial Accounting

- The preparation of financial statements in accordance with the provisions of the Companies Act, and legislation relating to other accounting entities
- Source authority and use of accounting standards

10.2 Partnership Accounts

- The provisions of the Partnership Act. - Realignments and dissolutions
- Conversion of a partnership to a limited liability company - Life assurance policies.

10.3 Branch Accounts

- Accounting for dependant branches (selling agencies)
- Accounting for independent branches; local and foreign branches

10.4 Accounting for Business Combinations

- The legal and institutional requirements for business combinations
- The consolidated profit and loss account, balance sheet and cashflow statements
- Accounting for investment in associates
- Published group accounts
- The acquisitions(purchase) method versus merger (pooling of interest) method.

10.5 Bankruptcy, Receiverships and Liquidations

- Acts of bankruptcy; the petition; the receiving orders; powers and duties of the official receivers; scheme of composition; deeds of arrangement; the adjudication for the debtors
- The trustee: appointment, rights to the property of the bankrupt, duties, powers, privileges and removal
- Transactions by the trustee
- Provable and non provable debts; priority of debts; dividends; small bankruptcy offences; discharge; costs and appeals
- Bankruptcy accounts: statement of affairs and deficiency accounts.
- Receivership and liquidation accounts

10.6 Executorship and Trust Accounts

- The provisions of the Law of Succession Act
- Accounts of the executor, expense and distribution statements
- The law of Trust
- Trustee"s accounts

10.7 Pension Funds Accounts

- Administration of retirement benefits, pension schemes and funds
- Preparation of simple pension funds accounts

PART II: Past Paper Questions and Answers

QUESTIONS – PAST PAPERS

PILOT PAPER JULY

2008. QUESTION ONE

The authorized share capital of Shirika Jipya Limited consists of 75,000 redeemable preference shares of Sh.10 each and 1,500,000 ordinary share of Sh.25 each. The former are to be redeemed during 2005.
The trial balance of Shirika Jipya Limited as at 30 June 2000 was as follows:

	Sh. „000"	Sh. „000"
Ordinary Share capital (shares fully paid)		15,375
6% redeemable preference share capital		750
Share premium account		3,150
Profit and loss account (1 July 1999)		21,600
10% convertible loan stock		8,000
Deferred tax		1,080
Inventories (1 July 1999)	25,073	
Trade receivable	34,979	
Trade payables		25,425
Provision for doubtful debts		90
Wages and salaries payable		473
Value added tax payable		681
Interim dividend paid	430	
Freehold land, at cost	848	
Building at cost	5,100	
Plant at cost	30,750	
Provision for depreciation on building		398
Provision for depreciation on plant		12,059
Long-term investment quoted	3,525	
Interest paid	450	
Purchases	141,450	
Preferred dividend paid	32	
Profit on sale of plant		173
Bad debts	23	
Sales		179,100
Dividend received from investments (gross)		300
Installment tax and withholding tax paid	738	
Wages and salaries	24,450	
Bank	806	
	268,654	**268,654**

Additional information:

1. The 10% convertible loan stock is secured against the plant.
2. (i.) During the year fixed assets were purchased as follows

Buildings Sh.750,000 and plant Sh.4,050,000.
(ii). Plant with an original cost of Sh.1,500,000.

3. Depreciation is to be charged as to buildings Sh.53,000 and plant Sh.690,000.
4. The quoted investments had a market value at 30 June 2000 of Sh.6,750,000.
5. The wages and salaries figure includes the following:

Directors Salaries	122,00
General Manager	33,000
Company Secretary	23,000

6. The firm had signed a contract for Sh.23,243,000 being the lower of cost and net realisable value.
7. Sh.75,000 needs to be transferred from the deferred tax account.
8. The stock as at 30 June 2000 was Sh.23,243,000 being the lower cost and net realisable value.
9. The following provisions need to be made:
   (i). Audit fees of Sh. 53,000
   (ii). A final dividend on ordinary shares of Sh.35 per share. This had been proposed before the year end.
   (iii) The provision of doubtful debts is to be adjusted to Sh.120,000.
   (iv). Corporate tax of the year"s profit is estimated at Sh. 4,290,000. Last year"s tax was overestimated by Sh.15,000: this figure had been netted off against the installment and with-holding tax paid.

10. After payment of the preference dividend in March 2000, the company decided to redeem these shares and this was done in June 2000. No entries have been made in the books in respect of the same. The shares were redeemed at a premium of 5% and this is to be written –off in the share premium account.

Required:

(a) An Income Statement (using the cost of sales method: do not attempt to classify expenses according to their functions). (8 marks)

(b) A statement of Changes in Equity for the year ended 30 June 2000. (8 marks)

(c) A Balance Sheet as at that date in a form suitable for publication and conforming (as far as the information permits) with the requirements of the Companies Act and International Accounting Standards. (9 marks)

(Total: 25 marks)

QUESTION TWO

The following is a summary of the balances in the records of Kwa Limited and its subsidiary Jomvu Limited as at 31 March 2000.

	Kwa Ltd Sh. „000"	Jomvu Ltd. Sh. „000"
Property, plant and equipment at cost	250,000	220,000
7,500,000 ordinary shares in Jomvu Ltd. at cost.	165,000	
6,000,000 preference shares in Jomvu Ltd. at cost	60,000	
Sh.5,000,000 6% debentures of Jomvu Ltd.	5,000	
Current assets	145,500	143,400
	625,500	**363,400**
Authorized and issued capital, fully paid: Ordinary shares of Sh.10 each.	300,000	100,000
7% non-cumulative preference shares of Sh.10 each.		80,000
General reserves	50,000	40,000
Profit and loss account	98,500	44,400
Provision for depreciation	60,000	30,000
6% debentures		20,000
Proposed dividends:		
On ordinary shares	30,000	10,000
On preference shares		5,600
Debenture interest accrued		1,200
Trade payables	87,000	32,200
	625,500	**363,400**

You ascertain the following:

1. Kwa Limited acquired the shares of Jomvu Limited, cum dividend on 31 March 1999.
2. The general reserve of Jomvu Limited was the same on 31 March 1999 as on 31 March 2000. The balance on the profit and loss account of Jomvu Limited is made up as follows:

	Sh. „000"
Balance on 31 March 1999	28,000
Net profit for period ended 31 March 2000	32,000
	60,000
Less proposed dividends	15,600
	44,400

3. The stock in trade of Jomvu Limited on 31 March 2000 included Sh.6 million in respect of goods purchased from Kwa Limited. These goods had been sold by Kwa Limited to Jomvu Limited at such a price as to give Kwa Limited a profit of 20% on the invoice price.
4. The balance on the profit and loss account of Jomvu Limited on 31 March 1999, is after providing for preference dividend of Sh.5,600,000 and a proposed ordinary dividend of Sh.5,000,000 both of which were subsequently paid and credited to the profit and loss account of Kwa Limited.

5. No entries have been made in the books of Kwa Limited in respect of the debentures interest due from, or the proposed dividends of Jomvu Limited for the year ended 31 March 2000.
6. On 31 March 2000, the authorized and issued ordinary share capital of Jomvu Limited had been increased by Sh.20 million by capitalizing part of the general reserve and issuing 2 million Sh.20 shares to the existing shareholders in proportion to their existing holdings. The transaction has not yet been reflected in the books of Kwa Limited or Jomvu Limited.
7. Group policy to amortize goodwill on consolidation over 5 years using the straight line method.

Required:

A consolidated balance sheet of Kwa and its subsidiary company Jomvu Limited as at 31 March 2000. **(Total: 20 marks)**

QUESTION THREE

Mwenyeji Limited exported some of its products through an overseas branch whose currency is "Kove". The trial balances of the Head Office and the Branch as at 30 June 2000 are as follows:

	Head Office		Branch	
	Sh. „000"	Sh. „000"	Kove „000"	Kove „000"
Freehold buildings at cost	14,000		63,000	
Debtors/Creditors	8,900	9,500	36,000	1,560
Sales		104,000		432,000
Issued share capital		40,000		
Components sent to Branch		35,000		
Head Office/Branch Accounts	60,100			504,260
Branch cost of sales			360,000	
Provision of depreciation on machinery.		1,500		56,700
Head Office cost of sales (including goods sent to Branch)	59,000			
Administrative cost	15,200		18,000	
Stock 30 June 1999	28,900		11,520	
Profit and loss account		2,000		
Machinery at cost	6,000		126,000	
Remittances		28,000	272,000	
Cash at Bank	4,600		79,200	
Selling and distribution cost	23,300		28,800	
	220,000	**220,000**	**994,520**	**994,520**

The following adjustments are to be made:

1. The cost of sales figure includes a depreciation charge of 10% per annum on cost of machinery.
2. A provision of Sh.300,000 for unrealized profits in the branch stock is to be made. The closing stock in the branch was sent close to the balance sheet date.
3. On 26 June 2000, the Branch remitted Kove. 16,000,000. This amount was received by the Head Office on 14 July 2000 and realized Sh.1,900,000.

4. During May 2000, a customer of the branch by mistake paid the Head Office for goods supplied by the Branch. The amount due from him was Kove. 320,000 which realized Sh.36,000. It has correctly been recorded in the Head Office books but has not yet entered in the branch accounts.
5. A commission of 5% of the net profits of the branch after charging such commission is payable to the Branch Manager.
6. The exchange rates are:
   - At July 1999 — 10 Kove = Sh.1
   - At 30 June 2000 — 8 Kove = Sh 1
   - Average rate for the year — 9 Kove = Sh.1
   - On date of purchase of Building and Machinery — 7 Kove – Sh.1

Required:

(a) Detailed trading and profit and loss accounts of the Head Office and the Branch for the year ended 30 June 2000.

(b) A Balance Sheet as at 30 June 2000 combining the figures of the Head Office and the Branch. Ignore taxation. **(Total: 20 marks)**

QUESTION FOUR

Mali Mengi (aged 57) died in a road accident on 31 December 1999. On 1 May 2000 after his executors had paid all debts (except for the mortgage for his freehold house and debt to Mkopeshaji) testamentary and funeral expenses, his estate was ascertained as follows:

		Sh. „000"
Cash in bank accounts		4,250
Freehold house		3,250
Toyota corolla		360
Nissan sunny		220
Television and music system		105
Debt due from Pungufu		40
Furniture and personal effects		302
10,000 ordinary shares in Cement Ltd.		1,200
4,500 ordinary shares in Soko Mjinga Ltd.		370
Sh.800,000 10% Kenya stock		165
Income received to date		
Interest	230	
Dividend from Soko Mjinga Limited	37	
	267	
Less: Mortgage interest paid 31 march 2000	120	147
		10,409

Extracts from Mali Mengi"s will left bequests as follows:

1. To each of my sons. Kikwajuni, Mnazini, and Mwembeni Sh.1 million.
2. To my wife Darajani, I leave my furniture, household and personal effects and the residue of my estate.
3. To my daughter Nanjale, my freehold house free of all duties. The house was subject to a mortgage of Sh.1 million carrying interest at 24% per annum payable 31 March and 30 September. Duty on the house amounts to Sh.130,000.

4. To my friend Kisitu, one of the motor cars owned by me at the time of my death he may choose.
5. To my friend Mlungu Sh.100,000.
6. To my sisters-in-law Sh.300,000
7. To my cousin, Nipa, my painting of Mausoleum by Kikuvu.
8. To my driver Ndeleva Sh.150,000
9. To my friend Shimba, my holding of Sh.800,000 110% Kenya stock, Mali Mengi owed Shimba Sh.100,000.
10. To my sister Malindi Sh.300,000
11. To my personal assistant, Sijapata half of my holdings in Cement Ltd.
12. To my niece Sinani, 4,000 ordinary shares from my holding of such shares in Cement Ltd.
13. To my nephew Shaibu Sh.200,000 payable out of my shares in Cement Ltd.
14. To my friend Mlungu Sh.50,000.
15. To my neighbour, Jirani Sh.50,000.
16. To my sister Dada, Sh.100,000 to establish a business.

Mali Mengi executors ascertained the following beneficiaries were dead:

- Son Mnazini died in 1997 leaving a wife and two children.
- Son Mwembeni died in 1998 leaving a wife.
- Sister Malindi died in 1996 leaving two daughters.
- Driver, Ndeleva aged 60 died in the same accident as Mali Mengi. It was impossible to determine the order in which Mali Mengi and Ndeleva died.

The executors also advise you that:

(i). Kisitu chose the Toyota corolla
(ii). Mali Mengi sold his painting of the mausoleum using the proceeds to purchase his holding in Soko Mjinga Ltd.
(iii). There is no such investment as 110% Kenya stock. The referees in the will to 110% is thought to be a typing error not previously noticed.
(iv). Jirani replied in writing that he did not want anything from Mali Mengi because Mali Mengi was a bad neighbour.
(v). Mali Mengi paid the Sh.100,000 during his life to his sister Dada to establish a business.

Required:

(a) A statement showing the distribution of Mali Mengi"s estate on 1 May 2000. (16 marks)

(b) A list of legacies to which the executors should not assent, briefly give reasons for the decision. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) As a company reports become larger and more complicated as a result of additional requirements, there is a danger that the essential elements in them become obscure to the unsophisticated user. There may be some merit in examining whether companies should be required to issue, to those who wish it, a simplified form of annual account.

Required:

Explain the arguments that may be advanced against the publication of simplified accounts. (15 marks)

(b) (i). Distinguish between list A and list B contributories in the case of company liquidation. (2 marks)

(ii). Under what conditions would a list B contributory be required to contribute in the case of company liquidation? (3 marks)

(Total: 20 marks)

DECEMBER 2008

QUESTION ONE

Trendsetters Limited operates two branches, one in Nairobi and one in Mombassa. These two branches are supplies from a warehouse in Athi River town where the Head Office of the Company is situated. All purchases are made at the head office. Goods are charged to both branches all selling price, which is head office cost plus 50%. All cash receipts in the branches are banked daily. The following figures relate to the company"s performance for the year ended 30 September 2000 and financial position as at that date.

	Head Office Sh. „000"	Nairobi Branch Sh. „000"	Mombasa Branch Sh. „000"
Cash sales banked		110,820	168,000
Credit sales		12,300	8,400
Stock at cost, 1 October 1999	11,750		
Stock at selling price, 1 October 1999		18,300	24,150
Purchases	233,175		
Expenses paid	19,540	9,008	10,825
Goods sent to branches (selling price)		124,155	180,225
Goods received from debtors		12,100	8,525
Property, plant and equipment			
(Net Book value: 30 September 2000)	25,000	28,000	35,000
Debtors at 1 October 1999		1,200	1,100
Bank overdraft at 1 October 1999	11,800		
Trade creditors at 1 October 1999	42,550		
Trade creditors at 30 September 2000	41,200		
Ordinary share capital: 3 million Sh.10 shares	30,000		
Retained earnings at 1 October 1999	45,946		

Additional information:

1. Head office expenses are apportioned equally to the branches.
2. A debt for Sh.75,000 became had during the year at Mombasa branch.
3. Goods were transferred at selling price from Nairobi to Mombasa branch at Sh.405,000 and from Mombassa branch to Nairobi at Sh.900,000.
4. On 31 May 2000, the day"s takings of Sh.525,000 were stolen from Mombassabranch. On 26 December 1999, goods at a selling price of Sh.66,000 had been stolen from Nairobi branch
5. Stocktaking on 30 September 2000 revealed a deficiency of Sh.54,000 at Nairobi branch and a surplus of Sh.30,000 at Mombassa branch (both figures being a selling price) Since no information could not be found for the shortfall in Nairobi, management agreed to account for this as a nominal loss. The surplus in Mombassa was due to goods being sold at a price in excess of the authorized selling price. This was to be reported as a separate line item in the profit and loss account.
6. The directors proposed a dividend of 20% on 30 September 2000.
7. Income should be provided for 30% of the net profit for the year (assume the taxable profit and the accounting profit are the same figure) Installment tax of Sh.13,000,000 was paid in the year. All bankings in the branches are transferred electronically to the head office bank account out of which all expenses are paid. Ignore depreciation of property, plant and equipment.

Required:

(a) A stock account and a mark-up account for each branch in column format (10 marks)

(b) A profit and loss account for each branch and combined total commencing with the gross profit for each branch. (6 marks)

(c) A debtors control account for each branch, the head office bank account and a balance sheet as at 30 September 2000. (9 marks)

NB: Do not produce a statement of changes in equity, show the retained profit broughtforward as a line item in the combined profit and loss account. (**Total: 25 marks)**

QUESTION TWO

The figures that relate to the Profit and Loss Accounts and to the Statement of Charges in Equity for Addis Limited and as subsidiaries Bunyala Limited and Chania Limited for the year ended 30 November 2000 are as follows:

	Addis Ltd. Sh. „000"	Bunyala Ltd. Sh. „000"	Chania Ltd. Sh. „000"
Sales revenue	84,000	66,000	48,000
Inventory 1 December 1999	(3,824)	(3,757)	(2,822)
Inventory 30 November 2000	4,286	4,124	2,452
Purchases	(50,862)	(49,862)	(38,430)
Distribution cost	(13,440)	(8,050)	(9,600)
Administrative expenses	(8,400)	(3,950)	(6,400)
Taxation: Current	(2,140)	(1,050)	-
Deferred	(1,420)	(300)	2,040
Dividends			
Preference: Interim paid 31 May 2000	-	(450)	-
Final paid 30 November 2000	-	(450)	-
Ordinary: Interim paid 31 August 2000	(3,000)	(500)	-
Final proposed 30 November 2000	(4,500)	(750)	(150)
Dividends received	580	-	-
Retained profit: 1 December 1999	18,300	12,600	9,200
Issued and paid-up share capital:			
Preference share capital	Nil	9,000	Nil
Ordinary share capital	15,000	10,000	3,.000

Additional information:

1. Addis Limited acquired 180,000 10% preference shares of Sh.20 each and 800,000 ordinary shares of Sh.10 each on 1 December 1996 when the balance on the profit and loss account of Bunyala Limited was Sh.8,100,000. Goodwill of Sh.2,500,000 had arisen on the purchase of these shares. Addis Limited is amortizing this goodwill over 5 years on the straight line basis.
2. Addis Limited acquired 180,000 ordinary shares of Sh.10 each in Chania Limited on 1 March 2000: the purchase price of these shares was to be fixed once the results for the year ended 30 November 2000 to maintain its trustee status.
3. Bunyala Limited makes sales to Addis Limited at its nominal selling price. In the year ended 30 November 2000, Bunyala Limited"s sales to Addis Limoted amounted to

Sh.9,300,000. Stock purchased from Bunyala Limited and held by Addis Limited at cost amounted to Sh.540,000 and Sh.720,000 on 30 November 1999 and 30 November 2000 respectively.

4. Addis Limited sold an item of plant to Bunyala Limited on 1 December 1998 for Sh.2,400,000. Addis Limited had marked up its cost by 20%. Bunyala Limited is depreciating this item of plant to nil residual value on the straight line basis over 10 years with the charge appearing as part of cost of sales.
5. There has been no intra-group trade between Chania Limited and other two companies.
6. Group policy in relation to unrealised profit on intra-group sales is of assets os to remove the whole of the unrealised profit from the asset and from the company which made the profit on the sale of the asset adjusting the minority interest"s share of this profit as appropriate. The amortization of goodwill is classified as an administrative expense and deemed to be a charge against the profit of the holding company.

Required:

The consolidated Income Statement and the portion of the Consolidated Statement of Charges in Equity that relates to accumulated profit, giving the details required by International Accounting Standard and the Kenya Companies Act, including reconciliation of the group retained profit for the year and carried forward.

(Total: 20 marks)

QUESTION THREE

Kahari and Lagaga, two brothers are the life tenants of trust set up by their rich uncle, Maundu. Maundu had never married. He set up the Maundu Trust with the following terms:

I. The trustees were to have unrestricted powers of investment:
II. The trustees were to share any income that arose equally between Kahari and Lagaga
III. Kahari and Lagaga were to receive income until their deaths. On the death of either of the life tenants one of the capital passes absolutely to Nzau, Maundu"s younger brother.

The balance sheet of the trust was as follows on 30 September 1999:

	Sh. „000"
Capital assets:	5,400
House in Milimani, Nairobi	8,820
Sh.9 million 12% Kenya Treasury Stock	3,870
60,000 Sh.10 ordinary shares in Uchumi Limited	2,040
24,000 Sh.10 ordinary shares in Media Group Ltd.	1,410
Cash at bank Capital	120
Income	21,660
Trust capital	21,540
Trust income	120
	21,660

In the year ended 30 September 2000, the following transaction took place:

1. Interest on the 12% Kenya Treasury Stock was received on the due dates, 31 December 2000.
2. The trustees sold Sh.3 million 12% Kenya Treasury Stock on 1 November 1999 to enable them purchase a further 50,000 Sh.10 ordinary shares in Uchumi Limited as Sh.69 per share. The 12% Kenya Treasury Stock was sold at a price of 88. The shares in Uchumi Limited were purchased on 1 December 1999.
3. Kahari died on 31 January 2000. He died had been living in the house in Milimani, Nairobi, owned by the trust, paying rent of Sh.40,000 per month, quarterly in arrears. He had paid 3 month"s rent on 31 October 1999, but had not paid the rent due on 31 January 2000: this was to be offset against claims on the Trust The house remained empty from 1 February 2000 onwards.
4. On 31 January 2000, the market value of the assets in the trust were as follows:

House in Milimani, Nairobi	Sh.9,600,000
12% Kenya Treasury Stock	90
Sh. 10 ordinary shares in Uchumi Limited	Sh. 75
Sh. 10 ordinary shares in Media Group Ltd.	Sh. 100

5. Dividends of Sh.7.50 per share on the ordinary share in Media Group Limited in respect of the year ended 31 December 1999 were received on 31 March 2000. Dividends of Sh.6 per share on the ordinary shares in Uchumi Limited in respect of the year ended 31 March 2000 were received on 31 June 2000.
6. The Trustees paid to the executors of Kahari the amount due on 1 September 2000. On the same day they paid the income due to Lagaga and distributed to Nzau the house in Milimani, Nairobi, 39,000 Sh.10 ordinary shares in Uchumi Limited and the remainder in cash. On 1 September 2000, the values of the assets were the same as on 31 January 2000.

Required:

(a) Cash book and the trust capital account for the year ended 30 September 2000. (7 marks)

(b) Show how all available income will be divided between Kahari, Lagaga and Nzau. Apportionment should be made on the basis of months (3 marks)

(c) The distribution account for Nzau and the Trust Balance Sheet as at 30 September 2000. The trustees incorporated revaluation into the books of the Trust. (7 marks)

(Total: 20 marks)

QUESTION FOUR

The trial balance extracted from the books of Newa, Omae, Pekka and Omar on 30 April 2000 was as follows.

		Sh. „000"	Sh. „000"
Freehold property (Net book value		6,000	
Plant and Equipment (NBV)		1,395	
Office equipment (NBV)		2,030	
Vehicle (NBV)		1,075	
Stock		3,405	
Debtors		1,590	
Creditors			785
Bank overdraft			210
Capital accounts	Newa		6,750
	Omae,		4,050
	Pekka		2,700
	Omar		2,700
Current accounts:	Newa	250	
	Omae,	1,350	
	Pekka	300	
	Omar		200
		17,395	**17,395**

The business has steadily declining in the past few years. The partners have been trying to sell the business as a going concern but have been unable to do so. They decided to sell the assets on a piece meal basis and cash would be distributed to partners as soon as possible in amounts which would ensure that no partner would be called upon to repay any moneys he had received. In the partnership agreement profits and losses were shared between Newa, Omae, Pekka and Omar in the ratio 4:3:2:1 respectively and the application of the rule in Garner Murray was excluded.
Transactions have taken place as follows.

15 May 2000 All the motor vehicles were sold at the Car Bazaar for Sh.975,000 net of selling cost. The money was put into the bank account.

31 May 2000 Cash collected from debtors Sh.122,000 and stock sold to realize Sh.1,070,000 after cost. All creditors were paid and the cash distribution made.

30 June 2000

Cash collected from debtors Sh.248,000 and stock sold to realize Sh.955,000 net. Second cash distribution was made.

31 July 2000

Cash collected from debtors Sh.1,100,000 from sale of stock (net) Sh.1,465,000. Third cash distribution was made.

31 August 2000

Office equipment sold for Sh.1,950,000 (net) and plant and

31 October 2000 equipment sold for Sh.1,610,000. Fourth cash distribution was made.

The freehold property was sold for Sh.6,600,000 various distribution expenses of Sh.200,000 were paid the final distribution of cash took place

Required:

(a) A partnership distribution schedule: (12 marks)
(b) Summary bank realization and partners" capital accounts. (8 marks)
(Total: 20 marks)

QUESTION FIVE

(a) What meetings of creditors must be held and for what purpose in the course of a creditors" voluntary winding up? (7 marks)
(b) The following trial balance was extracted from the accounting records of the XYZ Retirement Benefits Scheme for the year ended 30 September 2000.

	Sh. „000"	Sh. „000"
Accumulated fund as at 1 October 1999		461,560
Accrued expensed		240
Administrative expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Commutation and lump sum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out to other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Kenya Government securities	263,605	
Members" nominal contributions		18,240
Members" additional voluntary contributions		4,560
Pensions	7,640	
Quoted equity investments	87,835	
Unpaid benefits		320
Unquoted equity investments	19,990	
	571,950	**571,950**

Required:

The statement of Changes in Net Assets (the Fund Account) for the year ended 30 September 2000 and a statement of Net Assets as at 30 September 2000, in accordance with International Accounting Standard 26 (Accounting and reporting by Retired Benefit Plans)

Hints:

The XYZ Retirement Benefits Scheme"s accounting policies state that the reconciliation of the accumulated fund for the year is included in Statement of Net Assets and administrative expenses are included as the final item in the Statement of Charges in Net Assets. In all other respects, the format used is in conformity with that laid down in the Retirement Benefits Regulations in Retirement Benefits Act. (11 marks)
(Total: 18 marks)

JUNE 2009

QUESTION ONE

Three firms of accounts decided to amalgamate into a new firm Cheloti Gusera Kandie & Co. with effect from 1 April 1999. Until 31 March 1999 Apopo. Cheloti and Chuma were partners in Apopo Cheloti & Co. sharing capital and profits equally. Guserwa. Kurgat and Ochieng were partners in Guserwa & Co. sharing capital and profits in the ratio 4:4:1. Kandie was a sole practitioner.

The balance sheets of the firms as at 31 March 1999 were as follows:

	Apopo Cheloti & Co.		Guserwa & Co.			Kandie
	Sh. „000"	Sh. „000"	Sh.„000"		Sh. „000"	Sh. „000"
Fixed assets: Office equipment		450			420	150
Intangible assets: Goodwill		1,500			1,065	240
		1,950			1,485	390
Current assets: Work-in- progress		1,800			1,050	240
Debtors		5,250			2,625	225
Cash		750			300	165
		7,800			3,975	630
		9,750			5,460	1,020
Capital accounts		8,550			4,050	900
Current accounts: Apopo	270		Guserwa	600		
Cheloti	360		Kurgat	390		
Chuma	120	750	Ochieng	60	1,050	
Creditors		450			360	120
		9,750			5,460	1,020

The terms of amalgamation were as follows:

1. Apopo retired on 31 March 1999.
2. The capital of the new firm Cheloti Guserwa Kandie & Co. was to be Sh.15 million and profit sharing ratios and capital contributions were to be Cheloti 30%, Chuma 30%, Guserwa 15%, Kurgat 15%, Ochieng 5% and Kandie 5%.
3. In the opening balance sheet of the new firm, office equipment was to be bought at the old book values except for that from Apopo Cheloti and Co. where the value was agreed at Sh.300,000. Work-in-progress was agreed at book value and goodwill for three firms at Sh.3 million. Debtors were taken in at book values less 20% discount. Creditors were paid by the old practices. Apopo and Kandie took any cash remaining in their old practices and Guserwa contributed the necessary cash in his old practice. The total goodwill acquired from old partnerships was in the ratio in which they share profits in the new.
4. Partners introduced their balances of capital in cash
5. A salary of Sh.600,000 per annum per partner was given the new partnership. Drawings of Sh.45,000 per month per partner were allowed: at the end of each half year, partners were allowed to draw Sh.30,000 for each 2½ % share of the partnership profit attributable to that partner.
6. On 1 October 1999, it was agreed to take Maina into the partnership on similar terms as to salary and drawings, with a 2½ % share. The capital and profit sharing ratios were altered to Cheloti 22½ %, Chuma 22½ %, Guserwa 20%, Kurgat 20%, Ochieng

5% and Kandie 7 ½%. Kandie and Maina could only bring in two thirds of what was required. It was agreed that the remaining one third should remain in a debit in their current accounts to be cleared against future profits. Cheloti and Chuma withdrew equally the cash capital introduced on 1 October 1999 by Guserwa, Kurgat, Kandie and Maina.

7. The profit of the partnership for the year ended 31 March 2000, after deducting partners" salaries was Sh.4,800,000: this profit was deemed to have accrued evenlyover the year as opposed to total profit. The partners made all allowable drawings in full.

Required:

(a) The opening journal entries of Cheloti Guserwa Kandie and Co. (7 marks)

(b) The capital and current accounts of each partner (in columnar form)

i. In the old practices, so as to indicate the resultant indebtedness between the partners: (8 marks) ii. In the new practice, so as to indicate the balances on 1 April 1999 and 31 March 2000. (10 marks)

(Total: 25 marks)

QUESTION TWO

The balance sheets of AC Limited, BEM Limited and CET Limited as at 31 May 2000 were as follows:

	AC Ltd.	BEM Ltd.	CET Lld.
	Sh. „000"	Sh. „000"	Sh. „000"
Fixed assets	68,700	36,200	31,900
Investments in subsidiaries:			
BEM Ltd. (Book value)	75,000		
CET Ltd. (cost)		40,000	
Current assets: Debtors	21,200	8,700	6,900
Cash	-	27,100	16,200
	164,900	112,000	55,000
Share capital:			
Authorized issued and fully paid			
Ordinary shares of Sh.10	100,000	30,000	10,000
Profit and loss account	11,000	54,000	28,000
Shareholders" funds	111,100	84,000	38,000
12% loan stock	30,000	20,000	10,000
	141,100	104,000	48,000
Current liabilities:			
Bank overdraft (secured)	9,300	-	-
Creditors	12,700	6,500	5,800
Taxation	1,800	1,500	1,200
	23,800	8,000	7,000
	164,900	112,000	55,000

Additional information:

1. BEM Limited purchased 800,000 ordinary shares in CET Limited on 1 June 1999 for Sh.36 million and Sh.5 million nominal of the 12% loan stock of CET Limited on the same day for Sh.4 million. CET Limited paid an interim dividend of Sh.5 million on 9 January 2000. The directors have proposed a final dividend of the same amount but

this dividend has not been included in the balance sheet above. The balance on the profit and loss account of CET Limited was Sh.30 million at 1 June 1999. Interest on the 12% loan stock has always been paid up to date.

2. AC Ltd. Purchased 2,250,000 ordinary shares in BEM Ltd. On 1 June 1998 for Sh.70 million. The balance on the profit and loss account of BEM Ltd. On that date was Sh.50 million. On the same day AC Limited purchased Sh.10 million nominal of the 12% loan stock in BEM Limited for Sh.8 million. BEM Limited made a profit after tax of Sh.16 million in the year ended 31 May 2000. BEM Ltd. paid a single dividend of Sh.20 million for the year ended 31 May 1999, which AC Ltd. accounted for appropriately. BEM Ltd. paid an interim dividend of Sh.10 million on 11 February 2000 which AC Ltd. credited to its profit and loss account. A final proposed dividend of Sh.15 million has not yet been reflected in the balance sheet of BEM Limited above.

When BEM Limited received the dividend from CET Limited on 10 January 2000, BEM Limited credited its profit and loss account: the dividend is included in the Sh.18 million reported by BEM Limited. BEM limited has always paid interest on the 12% loan stock up to date.

3. Goodwill is carried at cost and amortized at 20% per annum on the straight-line basis.

4. The directors of AC limited ask to provide a final dividend of Sh.10 million.

Required:

The consolidated balance sheet of AC Limited and its subsidiaries as at 31 May 2000.

Note:

Proposed dividends should be shown as current liabilities. **(Total: 20 marks)**

QUESTION THREE

Joshua set up a business on 1 April 2000 in Nairobi with a branch in Mombassa. Purchases are made exclusively by Nairobi office where goods are weighed and packed before sale. The branch handles packed goods only from Nairobi and these are charged thereto at packed cost plus 10%. All sales by both branches are at a uniform gross profit of 25% on the packed cost.

The following balances have been extracted from the books of the business as at 31 March 2001.

	Nairobi Head Office		Mombassa Branch	
	Sh.	Sh.	Sh.	Sh.
Capital		2,640,000		
Drawings	300,000			
Purchases	23,920,200			
Cost of weighing and packing	415,800			
Sales		17,040,000		7,680,000
Goods sent/received by branch		7,814,400	7,682,400	
Selling and sundry expenses	2,688,000		324,000	
Account receivable/payable	2,760,000	7,000,200	1,104,000	28,800
Head office branch				
Current accounts	2,466,600			1,809,600
Balance at bank	1,944,000		408,000	
	34,494,600	**34,494,600**	**9,518,400**	**9,518,400**

The following additional information is available:

1. Goods delivered by Nairobi office to Mombassa branch in March 2001 at Sh.132,000 were not received or recorded by the branch until 3 April 2001. A remittance of Sh.525,000 from the branch to Nairobi in March was not received in Nairobi until 2 April 2001.
2. Inventory taking at the branch disclosed shortage of goods of a selling value of Sh.60,000. There was no shortage or surplus in Nairobi.
3. The cost of the inventory of unpacked goods in Nairobi at 31 March was Sh.2,160,000.
4. All inventories are valued at cost and there is no loss or wastage in weighing and packing.

Required:

(a) The cost of the inventories at the branch and the head office (6 marks)

(b) The trading profit and loss account for the year ended 31 March 2001 for the head office and combined total. (9 marks)

(Total: 15 marks)

QUESTION FOUR

Korir carrying out a business as a trader in Nairobi finds himself insolvent and on 15 March 2001 files his own petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Shs.		Shs.
Capital	180,000	Shop, loan and buildings	600,000
Mortgage on shop –land and building	450,000	Furniture and fittings	150,000
Loan ICDC	180,000	Stock of goods	81,405
Loan – Barclays Bank	90,000	Debtors	96,195
Loan – Co-operative Society	30,000	Korir – drawings	197,100
Loan – A Kariuki	15,000	Cash in hand	300
Loan – W. Kuria	3,000		
Trade creditors	171,000		
Salaries, wages payable	2,700		
NHIF, NSSF, PAYE	540		
Bank overdraft	2,7600		
	1,125,000		1,125,000

The following additional information is available:

1. Trade creditors include Sh.4,500 owing to Nairobi City council in respect of rates for the current period and a small loan from his friend Macharia Sh.1,500.
2. The amount owing for salaries, wages and payroll deductions are for 2001
3. There is Sh.31,500 interest unpaid on the mortgage as at 15 March 2001 which has not been recorded in books.
4. The loan from ICDC is secured by a second mortgage on the shop, land and building. The unrecorded interest owing as at 15 March 2001 is Sh.14,400.
5. The loan from the Co-operative society was obtained when Korir pledged his wholly owed farm as security. The farm is valued at Sh.45,000. There is no interest outstanding on his loan.
6. The interest on the loan from A Kariuki was to vary with profits, but since the business has been operating at loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank.
8. W. Kuria is Korir"s brother-in-law.
9. The value assets are estimated to be:

	Shs.
Shop, land and building	630,000
Furniture and fittings	120,000
Stock of goods	30,000

10. Of the debtors, Sh.60,000 are thought to be good and Sh.30,000 doubtful of which Sh.22,500 should be collectable.
11. Korir"s uncle died recently and he will be receiving Sh.7,500 as an inheritance.
12. Korir has no personal creditors outside the business but he has other personal assets as well as the small piece of land amounting to Sh.9,000 exclusive of household and personal effects.

Required:

(a) A statement of affairs for Korir as at 15 March 2001 in good form (10 marks)
(b) A deficiency account. (8 marks)
(c) A detailed listing of the amounts you have included as unsecured preferential creditors (2 marks)

(Total: 20 marks)

QUESTION FIVE

Kombo died on 31 October 2000 and left his estate as follows:

	Shs.
Household furniture	90,000
Cash in house	2,000
Cash at bank	250,000
10,000 ordinary shares of Sh.20 each in KFC Ltd. Valued at Sh.30 per share.	300,000
Investment at 5% on freehold property securities (interest thereon paid to 30 June 2000)	400,000
Share in business of Kombo & Co. valued at death	1,226,000
Sundry debtors	20,000
His liability amounted to	5,000
Funeral expenses	10,000

The following additional information is available:

1. A legacy of Sh.20,000 was bequeathed to his executor and was paid on 28 January 2001.
2. The residue of the estate was left in trust for his infant son.
3. The household furniture was sold on 15 December 2000 for Sh.96,000.
4. The shares were sold on the same date at Sh.29 ex div: a dividend being received on 25 January 2001 at 10% for the year ending 31 December 2000.
5. Interest on investment in freehold property securities was received on 31 December 2000, on which date the shares in the business of Kombo & Co. was received with interest at 5% per annum.
6. The liabilities and funeral expenses were discharged on 20 December 2000 on which date Sh.10,000 of the debts due were received. The balance being unpaid at the date of preparation of the accounts.

Required:

(a) Journal entries to record the above transactions (5 marks)
(b) The Estate cash book (4 marks)
(c) The Estate income account (3 marks)
(d) The Estate income account (5 marks)
(e) Balance sheet of Kombo: deceased as at 31 January 2001 (3 marks)

(Total: 20 marks)

DECEMBER 2009

QUESTION ONE

Aberdare Horticulture (AHL) and Naivasha Fresh-Fruit Limited (NFL) are exporters of horticultural and tropical fruits. Both Companies are owned by small number of shareholders. These shareholders have decided to amalgamate the two companies with effect from January 2001, by means of a share exchange, all the shareholders in NFL, with the exception of the production director who owns 5% of the shares of the company (and who will retain his shareholding in NFL) have exchanged each of their Sb 20 shares in NFL for 2 Sh 10 share in AHL. However the exchange of shares has not yet been accorded in the books of either company. Financial consultants had valued the shares in NFL at Sh. 40 each and those in Ahl at Sh. 17.50 each.

The trial balances of the two companies at 30 April 2001 were as follows:

	AHL		NFL	
	Sh. „000"	Sh. „000"	Sh. „000"	Sh. „000"
Administrative expenses	36,940		30,900	
Cash at bank Bank overdraft – Secured on land & building		3,350	5,750	
Creditors		19,100		8,550
Debtors	31,150		25,800	
Distribution expenses	55,410		46,350	
Dividends: interim paid	3,000		4,000	
Freehold land and buildings: cost/accumulated depreciation	21,250	8,500	18,900	7,560
Motor vehicles: cost/accumulated depreciation	6,600	3,300	5,200	2,600
Cost of sales	186,650		208,500	
Plant and machinery: cost/accumulated depreciation	36,000	14,400	40,000	16,000
Deferred taxation		3,720		4,460
Profit and loss account		17,680		22,560
Sales		293,300		300,000
Share capital: Issued and fully paid shares of Sh. 10/Sh.20		30,000		40,000
Stock	12,100		12,000	
Taxation: Instalment tax paid	4,250		4,330	
	393,350	393,350	401,730	401,730

Additional information:

1. The sales and expenses of both companies occurred evenly over the year to 30 April 2001. The rates of gross profit for both companies are constant throughout the year.
2. The self assessment tax returns have not yet been field, but will indicate corporation tax liabilities of Sh. 4,680,000 and Sh. 4,755,000 for AHL and respectively. Of these two amounts. Sh. 390,000 and Sh. 480,000, respectively of the liabilities are included in the deferred tax balances brought forward included in the trial balances above.

3. The directors of AHL, who comprise the three former directors of the company and three of the four directors of NFL have proposed that AHL and NFL would pay final dividends of Sh. 8,500,000 and 5,000,000 respectively.

Required:

The consolidated profit and loss account for the years ended 30th April 2001 and the consolidated balance sheet as at 30 April 2001. Using both the acquisition and the pooling of interests methods in both cases the fair values of the identifiable net assets approximate the book values. Any goodwill that rises should be amortised on the straight line basis over 60 months and the amortization should be shown as a separate line item in the consolidated profit and loss account. Produce also the statement of changes of equity for the year. Show the proposed dividends as current liabilities. Round all figures to the nearest Sh. 1,000 **(Total: 25 marks)**

QUESTION TWO

Victoria Gowns is a fashionable ladies-wear chain of clothing stores, started in Kakamega, but now present in all the major towns in Kenya and in Kampala, Uganda and in Dar-es-salaam, Tanzania. The accounts of all the branches are maintained in the books of the head office, now situated in Nairobi. The figures below that refer to goods are stated at selling prices, following figures relate to transactions carried out by the Mombasa branch in the year ended 31 May 2001:

	Sh."000"
Opening stock at commencement of the year	5,280
Goods received from head office	116,728
Goods received from Voi branch	560
Goods sent to Taita branch	720
Goods returned to Mombasa branch by credit customer (normal goods)	880
Goods returned to Voi branch by Mombasa credit customer (approved	322
by Head office: All these goods had been marked up by 15%)	1,360
Goods returned by Mombasa branch to Head office	52,800
Cash sales	240
Cash stolen from Mombasa branch on 12 December 2000	960
Goods stolen from Mombasa branch on 12 December 2000	61,686
Credit sales (mainly to boutiques in beach hotels)	12,802
Mombasa branch administrative expenses	17,072
Mombasa branch distribution costs	

Additional information:

1. The Mombasa branch is managed by a particularly competent group of women. Other than the thefts stated above, there were no shortages or surpluses of goods or cash during the year.
2. Demand for certain casual wear has been high during the year; to prevent stock-outs from occurring; these lines are normally marked up in price using a formula linked to the number of items sold in the proceeding week. Included in the opening stock were goods with a normal selling price of Sh. 800,000 but which had been marked up by a further 10% of this price. The normal selling price of the goods is head office cost plus 60% of cost. All these marked-up goods were sold in the year. Goods with a normal selling price of Sh. 1,120,000 had been marked up by an additional 15%. Three quarters of these goods had been sold by 31 May 2001.

3. In the income statements produced for management, cash stolen and goods stolen are shown as separate line items.

Required:

Prepare the Mombasa Branch Stock Account and the Mombasa Branch Mark-up Account in the books of the Head office, and the Memorandum Trading and Profit and Loss Account for the Mombasa Branch for the year ended 31 May 2001

(Total: 17 marks)

QUESTION THREE

A creditor of Polepay Traders, a partnership owned by Peter Ole Lemsio and Patrick Ayimba, presented a petition in bankruptcy against the partnership on 1 April 2001. On 30 April 2001, the High Court made out a Receiving order against the partnership and the two partners.

The balance sheets of the partnership and the individual partners as at 30 April were as follows:

Assets:	**Polepay Sh. „000"**	**Lemasio Sh. „000"**	**Ayimba Sh. „000"**	**Liabilities:**	**Polepay Sh. „000"**	**Lemasio Sh. „000"**	**Ayimba Sh. „000"**
Land and building	12,450			Bank overdraft	4,600		
Houses		5,500	4,800	Creditors	27,270	670	450
Plant & Equipment	14,600			Long-term loans	11,200	3,300	3,840
Furniture, etc,		650	400	Car loans		380	600
Inventory	19,600			Excess of assets			
Trade receivables	20,240			Over liabilities	24,000	15,990	15,550
Cash	180	90	140				
Investments		13,600	14,200				
Motor cars		500	900				
	67,070	20,340	20440		67,070	20,340	20,440

Additional information:

1. Lemasio and Ayimba have contributed equal amounts of capital to the partnership; always draw the same amount from the partnership and share profits and losses equally. The partners" capital included in their personal assets under the title investments,

2. The estimated realizable values of the assets stated above are as follows:

Assets:	Polepay Sh. „000"	Lemasio Sh. „000"	Ayimba Sh. „000"
Land and building	8,000		
Houses		4,000	3,500
Plant and Equipment	7,500		
Furniture		180	100
Inventory	13,500		
Trade receivables	13,100		
Other investments		700	1,000
Motor cars		250	300

3. The long term loan in the books of the partnership is secured on the partnership land and buildings. The long-term loan to the individual partners are secured on the individual partner"s houses. The partnership overdraft was secured by a second mortgage on the partnership land and building and by the personal guarantee of Ayimba and the deposit of his investments. The car loans are secured on the partners" car individually.

4. Of the sectors of Polepay, Lemasio and Ayimba, preferential creditors amounted to Sh.20,000, Sh.590,000 and Sh.380,000, respectively, and represent amounts due for taxation.

Required:

Prepare statements of Affairs and Deficiency or surplus Accounts for the partnership and for the individual partners, using the format laid down in the Bankruptcy Act and showing the legal position. **(Total: 20 marks)**

QUESTION FOUR

Maina and Ojara have been in partnership for a number of years sharing profits in the ratio 3:2. Because of the present difficult economic situation in the country, it has been agreed that in the period ended 30 April 2000, no salaries will be paid to the partners and no drawings will be made either. Interest has been credited to the partners in respect of their capital accounts. They decided to turn the partnership into a company on 30 April 2000, with its accounts being made up to 30 April each year. They decided that they would not open a separate set of accounts on 30 April 2000, but would continue to record the transactions of the business in the partnership books.

The trial balance extracted by the accountant, after he had computed the profit for the period ended 30 April 2000 and the year ended 30 April 20001, was as follows

		Sh. „000"	Sh. „000"
Capital accounts at 1 November 1999:	Maina		1,350
	Ojara		750
Net profit before tax: period to 30 April 2000			495
Operating profit before interest and tax: year to 30 April 2001			1,680
210,000 ordinary shares of Sh. 10 each, fully paid up			2,100
20% debentures			450
Stock and work-in progress		1,140	
Trade receivables		1,515	
Cash at Bank and in hand		405	
Interim dividend paid on 28 February 2001		300	
Trade payables			1,530
Purchase consideration for company		2,850	
Land and buildings		900	
Plant and machinery		900	
Vehicles		540	
Depreciation:	Land and buildings		30
Depreciation:	Plant and machinery		90
Depreciation:	Vehicles		135
Loss on revaluation of net assets as at 30 April		60	
		8,610	8,610

Additional information:

1. The fair values of the identifiable assets and liabilities of the partnership at 30 April 200 were:

	Sh. „000"
Land and buildings	900
Plant and machinery	900
Vehicles	540
Stock	480
Trade receivables	1,470
Cash at Bank and in hand	750
Trade payables	(2,505)
	2,535

These fair values recorded in the books on 30 April and were the basis used for computing the purchase consideration payables to the partners. Depreciation for the year ended 30 April 2001 has been provided for based on these figures.

2. The purchase consideration of Sh. 2,858,000 was satisfied by the issue of 210,000 ordinary shares of Sh. 10 each, Sh. 450,000 20% debentures and the balance in cash. The ordinary shares and the debentures were divided between the partners in their profit sharing ratio. Maina paid the dissolution expenses of the partnership out of his personal bank account in the amount of Sh. 90,000.

3. Interest on the debentures for the year ended 30 April 2001 has not been paid and has not accrued for either.

4. The company, which is called Maoja Limited, will pay a final dividend of Sh. 1 per shares on the profit made in the year. This had been decided at a meeting of the board of directors held on 30 April 2001.

5. Income tax at the rate of 30% on the adjusted profit for the year needs to be provided for in the amount of SH. 470,000. No installment tax has been paid since the year under consideration is the first year in which the company operated.

6. Maoja Ltd. has a policy of amortising goodwill over five years on a straight line basis. In the year to 3o April 2001, turnover was Sh. 10,080,000, cost of sales was Sh. 6,720,000, distribution costs were Sh. 1,092,000 and administrative expenses were Sh. 588,000. Included in these expenses items were Directors" Remuneration of Sh. 60,000, staff costs of Sh. 402,000 (including contributions to a defined contribution plan of Sh. 21,000) included in administrative expenses, and depreciation included in distribution costs. Amortisation of goodwill should be included in administrative expenses

Required:

(a). Prepare the Realisation and Capital Accounts of Maina and Ojaro to record the dissolution of the partnership. (7 marks)

(b). Prepare for Maoja Limited the income statement for the year ended 30 April 2001 and the balance sheet at that date in conformity with Kenya Companies Act and the International Accounting Standards. Do not prepare the statement of changes in equity – deal with dividends proposed and paid in the income statement. Ignore deferred tax. (13 marks)

(Total: 20 marks)

QUESTION FIVE

Lawi Kiprop"s will stated that the residue of his estate, after legacies to his sons and daughters, should be held in trust. The trustees were authorized to retain any asset which was included in his estate but was not an authorized investment under the Trustee Act (Cap. 167 of the Law of Kenya). The residue of his estate handed over to the trustee on 1 May 2000 comprised the following:

	Probate value Sh. „000"
3,000 Ordinary shares in E.A Breweries Ltd. (quoted)	330
6,000 Ordinary shares in BAT (K) Ltd	540
Collection of medals won in athletics: gold, silver and bronze	130
Sh. 500,000 6% Nairobi City Council Stock	300
Leasehold house in Kileleshwa (21 years remaining on lease)	3,750

	Probate value Sh. „000"
Leasehold house in Peponi (20 years remaining on lease)	4,250
1,500 Ordinary shares in Laki Ltd. (a private company)	450
2,500 ordinary shares in Wiro Ltd. (a private company)	600
Shares in Fidelity Building Society	300
Sh. 500,000 12% Kenya Stock 2005	1,020
Sh. 1,000,000 10% Kenya Stock 2002	274
Cash at bank	12,534

Additional information:

1. The market values of the assets above were the same as the probate values except for the shares in E.A Breweries and in BAT (K) which were quoted at Sh. 118 – 122 and Sh. 94 – 98 respectively, the 6% Nairobi City Council Stock which was quoted at Sh. 54 – 58 and the 12% Kenya Stock and 10% Kenya Stock which were quoted at Sh. 108 – 112 and Sh. 98 – 102 respectively.
2. On 1 May 2000, the trustees decided to divide the trust into the Special Range, Fixed Interest and Wider Range parts; any necessary balancing adjustments between the funds should be made firstly in cash and then in 10% Kenya Stock 2005.
3. On 15 June 2000, the trustees sold the medals Kiprop had won in athletics for Sh. 200,000.
4. On 30 September 2000, the tenants of the house in Kileleshwa moved out of the house. It was sold for Sh. 3,9000,000 on 31 October 2005.
5. On 31 December 2000, the tenant of the house in Peponi purchased the house, after he obtained an extension of the lease for 50 years from the commissioner of Lands. The agreed sale price was Sh. 6,000,000. The tenant paid Sh. 3,000,000 to the Trustees. The remainder of the purchase price was a mortgage loan to the tenant repayable over 6 years. Interest being charged at 15% per annum.
6. The trustees purchased 45,700 ordinary shares in the Nation media Group at Sh. 120 per share on 31 December 2000, on which date the market values of all the other investments were the same as on 1 May 2000. In addition, the trustees used the balance of the cash available to purchase Kenya Government Treasury Bills. When matured, they would be rolled over.
7. On 28 February 2001, the trustees decided to liquidate the building society share account to use the proceeds to pay the University fees of one on the beneficiaries of the trust. This transaction was completed on 1 March 2001, with no capital profit or loss being made.
8. On 30 April 2001, the purchaser of the Peponi house repaid Sh. 500,000 of the mortgage loan. This amount was immediately invested in Treasury Bills.

Required:

(a). Prepare a schedule to show the division of the assets on 1 May 2000. (4 marks)
(b). Write up the Trust Cash Capital Account in columnar form for the year ended 30 April 2001. Commencing with the probate value balance. (6 marks)
(c). Write up the Trust Cash Book for the year ended 30 April, commencing with the balance of cash after the division on 1 May 2000. (5 marks)
(d). Prepare the Trust Balance Sheet as at 30 April 2001. (3 marks)

(Total: 18 marks)

MAY 2010

QUESTION ONE

Viatu Ltd, which manufactures footwear, makes up its accounts to 31 March each year. The company has an authorised share capital of Sh. 600,000,000 divided into 15,000,000 6.5% preference shares of Sh. 20 each and 30,000,000 ordinary shares of Sh. 10 each. The following trial balance was extracted as at 31 March 2002.

Trial balance as at March 2002

	Sh000	Sh000
Cost of Sales	699,992	
Motor vehicle expenses	59,684	
Selling and distribution costs	78,840	
Depreciation of motor vehicles – for the year	12,580	
Wages and salaries	95,834	
Administration expenses	11,492	
Audit fees	1,400	
Sales		1,191,864
Discounts received		812
Investment income – trade investments		1,072
- others		1,608
Preference dividends paid	13,000	
Debenture interest	1,600	
Corporation tax paid – instalment	8,615	
Compensation to director for loss of office	8,500	
Depreciation of fixtures for the year)	1,040	
8% debentures		20,000
Cash in hand	3,000	
Ordinary share capital issued and paid-up)		200,000
Bank balance	11,745	
Preference share capital issued and paid-up)		200,000
Inventory 31 March 2002)	204,132	
Debtors/creditors	336,440	102,000
Deferred tax		3,000
Motor vehicles net book value)	24,800	
Provision for doubtful debts		14,400
Fixtures and fittings net book value)	11,300	
Profit and loss account 1 April 2001)		110,848
General reserves		60,000
Share premium		40,000
Freehold land and building cost)	270,000	
Investments – trade market value Sh.35,000,000)	30,000	
Others market value Sh.62,000,000)	61,610	
	1,945,604	1,945,604

Additional information:

1. Wages and salaries include salary paid to Managing Director of Sh. 30,000,000 and salary paid to Sales Director of Sh. 25,000,000.
2. Provision is due to be made for directors" fees Sh. 150,000,000.
3. Provision for doubtful debts is to be adjusted to Sh. 16,822,000.
4. Timing differences of Sh. 4,000,000 are expected to reverse in the near future.
5. The directors recommended an ordinary dividend of Sh.1.35 per share.
6. Corporation tax for the year is Sh.11; 820,000.The corporation tax rate is 30%on adjusted profit.
7. Land and buildings were professionally valued at Sh.300,000,000 at the year end. The directors wish to incorporate the valued amount in the financial statements.
8. Information about other fixed asset is as follows:

	Motor vehicles Sh	**Fixtures & fittings Sh**
Cost (including additions during the year)	51,200,000	20,800,000
Additions during the year	2,240,000	1,600,000
Cost of assets disposed of during the year (No entry made yet)	2,800,000	1,455,000
Accumulated depreciation of asset disposed of during the year	2,150,000	905,000
Proceeds of asset disposed of (including in sales in the trial balance)	715,000	500,000

Required

(a) Income statement for the year ended 31 March 2002 (13 marks)
(b) Balance sheet as at 31 March 2002 (12 marks)
(Total: 25 marks)

(The above two statement should be presented in the form suitable for publication in accordance with the requirements of International Accounting Standards .IASs)

QUESTION TWO

Kamau Maneno and Rotino have carried on partnership for several years, sharing profits and losses equally after allowing for annual salaries as follows:

	Sh.
Kamau	1,500,000
Maneno	900,000
Rotino	900,000

They decided to convert the partnership into limited company; Kamaro Ltd.as at 30 November 2001, the following terms:

1. Goodwill to be valued at Sh.13,500,000
2. Other assets to be valued as follows:

	Shs.
Freehold property	27,000,000
Furniture and fittings	2,400,000
Motor Vehicles	6,000,000

3. Each partner is becoming director of the company at the same salary as that previously allowed in the partnership.
4. Maneno"s loan is to converted into share capital at par.
5. Shares are to be issued to each partner at parin respect of the amounts of their equity holdings at 30 November 2001.
6. The financial year of partnership ends on 30 May .No action has been taken to carryout the terms of conversionof partnership into the limited company in the books of accounts.On 31 May 2002, the trial balance showed the following position:

	Sh „000"	Sh „000"
Capital accounts at 1 June 2001		
Kamau		18,000
Maneno		9,000
Rotino		6,000
Stock -31 May 2002	14,400	
Cost of sales	36,000	
Sales		60,000
Administrative expenses	6,000	
Selling expenses	3,000	
Accounting &Audit expense	1,200	
Incorporation expenses	600	
Drawings:		
Kamau	1,500	
Maneno	900	
Rotino	900	
Freehold property at cost	25,800	
Furniture and fittings at cost	6,000	
Accumulated depreciation		3,600
Debtors and Creditors	9,000	7,200
Prepayments and Accruals	600	300
Loan from Maneno(10% interest per annum)		9,000
Motor Vehicles at cost	12,000	
Accumulated depreciation		3,600
Bank balance		1,200
	117,900	117,900

Additional information;

i. The sales during the second half of the year were 60% of the total sales though the gross profit percentage remained the same throughout the year.
ii. The selling expenses were proportional to the sales for each period. All the expenses were incurred evenly throughout the year.
iii. Salary drawings were made evenly. Drawing made after incorporation were to be treated as director"s salaries.

iv. There were no purchases or sales of fixed assets during the year .Depreciation is to be provided on cost as follows;

Furniture and fittings	10% per annum
Motor vehicles	20% per annum

v. No dividends are paid or proposed but it is decided to write off the incorporation expenses and also Sh.3,500,000 of the goodwill.

Required

(a) Trading and profit and loss account for Kamaro Ltd. for the six months ended 31 May 2002 (8 marks)

(b) Calculation showing the value of shares to be issued to each partner. (4 marks)

(c) Balance sheet as at 31 May 2002. (8 marks)

(Total: 20 marks)

QUESTION THREE

On April 2001, Dolly Manufacturers Ltd .opened a branch in Zumala, a foreign country whose currency is the zuma (zm),to sell an assortment of dolls.The branch manager was authorised to purchase local dolls for resale, but it was expected that the major proportion of the sales would be the dolls supplied by the head office in Kenya.
On 31 March 2002, the trial balance of the head office and branch were as follows;

Trial balance as at 31 March 2002

	Head Office		**Branch**	
	Ksh	**Ksh**	**Ksh**	**Ksh**
Share capital		50,000,000		
Reserves		20,000,000		
Profit and loss a/c		12,000,000		
Premises at cost	45,000,000			
Fixtures and fittings	16,000,000		94,500,000	
Provision for dep. fixtures &		6,400,000		
fittings	14,050,000			
Stock 1 April 2001	17,550,000		35,100,000	
Debtors		4,500,000		12,336,000
Creditors	9,200,000		27,084,000	
Bank balance	980,000		8,598,000	
Cash in hand		101,090,000		277,233,000
Sales	65,630,000		48,807,000	
Purchases		13,520,000		
Goods sent to branch			156,500,000	
Goods received from head	15,900,000			
office				129,350,000
Branch current account		3,380,000		
Head office current account	19,250,000		28,514,600	
Branch stock adjustment	7,330,000		19,815,400	
account	**210,890,000**	**210,890,000**	**418,919,000**	**418,919,000**
Administration expenses				
Distribution expenses				

Additional information

1. Stock on hand as at 31 March 2002 was

Stock on hand as at 31 March 2002 was		
Head office		Ksh.28,500,000
Branch;		
	From head office	Zm.12,000,000
	From local purchases	Zm.9,775,000

2. Goods were invoiced by head office to branch at cost plus 23%. The branch sold the goods at invoiced price plus 50%. Goods sent to branch from head office were converted at affixed rate of 10 Zumas to 1 Ksh.
3. On 31 March 2002,goods in transit from head office to branch were at an invoiced value of Ksh.1,250,000
4. A remittance of Zm 5,800,000 from branch to head office was in transit 0n 31 march 2002.The remittance was converted at Zm.12.5 to Ksh.1
5. The fixtures and fittings were acquired when the exchange rate was Zm 10.5 to Ksh.1 on 1 July 2001.
6. Depreciation of the head office and branch fixtures and fittings is to be provided at the rare of 10% per annum on cost. A full year"s depreciation should be provided branch fixtures and fittinds.
7. The branch manager was to be allowed a commission of 2% on the sales of dolls supplied by the head office.
8. Rates of exchange at other dates were;

	Zumas		Ksh.
1 June 2001	10	to	1
31 March 2002	12	to	1
Average for the year	11	to	1
Date of purchase of closing stock	11.5	to	1

Required

(a). Trading, profit and loss account in columar form for the head office, the branch and the combined business for the year ended 31 March 2002. (12 marks)

(b). Balance sheet of the office, branch and the combined business as at 31 March 2002 (8 marks)

(Total: 20 marks)

(Use the temporal method to translate branch balances into Kenya shillings)

QUESTION FOUR

On 1 April 2001 Mega Ltd .acquired 4,500,000 ordinary shares of Ksh.20 par value in Lenga Ltd at a cost of Ksh.152, 000, 000.Further, on 1 July 2001 Mega Ltd acquired 15,000,000 ordinary shares of Ksh 20 par value in Tera Ltd at a cost of Ksh.716, 600,000.Directors were appointed to the boards of both companies by Mega Ltd so as to take an active part in their management. Given below is the information extracted from the books of the companies as at 31 March 2002.

Balance sheet as at 31 March 2002

	Mega	Lenga	Tera
	Sh.	Sh.	Sh.
	„000"	„000"	„000"
Freehold property at cost	720,000	0	200,000
Plant and machinery at cost	1,375,000	450,000	350,000
Stock	380,000	218,000	360,600
Debtors	374,800,	185,000	125,000
Amount due from Mega Ltd	-	-	48,000
Investments	868000	-	-
Bank balances	-	9,000	40,000
	3,717,800	**862,000**	**1,123,600**
Share capital	1,000,000	300,000	400,000
Share premium	200,000	24,000	-
Capital reserve	300,000	-	56,000
Retained profit (as at 31 March 2002)	786000	218,000	288,000
	2,286,000	**542,000**	**744,000**
Creditors	590,000	110,000	152,000
Amount due to Tera Ltd.	36,000	-	-
Accumulated depreciation –plant and machinery	521,800	120,000	124,600
Taxation	190,000	90,000	103,000
Bank balance	94,000	-	-
	3,717,800	**862,000**	**1,123,600**

Additional informationis given as follows

1. Profit for the year ended 31 March 2002 after tax and before dividends were as follows;

	Sh
Mega Ltd	252,000,000
Lenga Ltd	102,000,000
Tena Ltd	128,000,000

These profits are included in the retained profits.

2. No interim dividends were paid in the year but final proposed dividends are as follows;

Mega Ltd	20%
Lenga Ltd	10%
Tera Ltd	10%

3. Profits accrued uniformly throughout the year
4. Included in the stock of Mega Ltd. were goods purchased from Tera Ltd. at Sh.40, 000,000.Tera had made profits of 25% on cost of the goods.

5. A Remittance of Sh 12,000,000 from Mega ltd to Tera Ltd at the end of financial year was received in April 2002.
6. On1 April 2001 plant and machinery of Lenga Ltd was revalued upwards by Sh 240,000,000 and the revaluation was not incorporated in the books .Plant and machinery is depreciated at the rate of 10% per annum based on cost.
7. Goodwill or premium on consolidation is amortized on a straight line basis over five years.

Required

Consolidated balance sheet of Mega Ltd and its subsidiary as at 31 March 2002 (20 marks)

QUESTION FIVE

The parents of Huyu, wale and Hao died in March 1998. Friends and well wishers organized a fund-raising in May 1998 which raised Sh. 3,960,000. This money was to cater for the welfare of the three orphans. Mr. Kilimo, who was appointed the trustee, invested this amount as follows.

	Sh
9,600 ordinary shares of Sh. 10 per value in Fimbo Ltd.	864,000
12,600 ordinary shares of Sh. 10 per value in Lima Ltd.	1,512,000
13,200 ordinary shares of Sh. 10 per value in Pewa Ltd.	1,584,000
	3,960,000

Mr Kilimo also established an accumulation and maintenance trust to hold these investments on behalf of the children. The trust had a wide investment clause. The accounts were to be made to 30 April each year. When a beneficiary reached the age of 21 years, Mr. Kilimo would transfer the share of the fund due to him/her. Huyu turned 21 years on 30 April 2002.

The balances on the accumulation fund for Huyu, Wale and Hao and Hao as at 1 March 2001 were SH. 414,000, Sh. 207,900 and Sh. 69,300 respectively. To that date, Mr. Kilimo had used accumulated income to purchase 5,775 ordinary shares of Sh. 10 per value in Pewa Ltd.

In the year to 30 April 2002, Sh. 445,500 was received from capital investments and Sh. 124,740 from accumulation investments. Maintenance payments were made as follows:

Huyu	Sh. 154,000
Wale	Sh. 162,000
Hao	Sh. 188,000

On 30 April 2002, the market value of the shares in the companies, all listed at Nyumbani stock Exchange (NSE) were as follows:

Fimbo	Sh. 120 per share
Lima	Sh. 160 per share
Pewa	Sh. 140 per share

Huyu was to receive 10,000 shares of Sh. 10 per value in Lima Ltd. and the balance due to him on capital would be made up of the shares in Fimbo Ltd. Out of the accumulation assets, Huyu was to receive Sh. 64,444 in cash and the balance in shares in the Pewa Ltd.

Required:

(a). The beneficiaries and accumulation accounts for the period ended 30 April 2002. (8 marks)

(b). The distribution statements for the capital and accumulation assets as at 30 April 2002. (7 marks)

(Total: 15 marks)

DECEMBER 2010

QUESTION ONE

Emojong, Barmoi and Kimani have been partners sharing profits and losses in the ratios 2:2:1. Accounts have been prepared on an annual basis to 31 December of each year Emojong the only active partner, died on 31 May 2002 and the remaining partners decided to cease business from that date. The assets are to be realized, outstanding debts paid and the remainder to be shared by the partners (including the executors of Emojong"s estate) in an equitable manner, distributions of cash being made as soon as possible.

A balance sheet prepared as at 31 May 2002 revealed the following position:

Emojong, Barmoi and Kimani
Balance Sheet as at 31 May 2002

	Cost Sh.„000"	Accumulated Depreciation Sh.„000"	Net Book Value Sh.„000"
Fixed assets:			
Goodwill	12,500	-	12,500
Freehold land and buildings	18,750	-	18,750
Plant and machinery	16,625	6,975	9,650
Fixtures and fittings	3,750	1,625	2,125
Motor vehicles	4,000	3,000	1,000
	55,625	11,600	44,025
Current assets:			
Stock		8,000	
Debtors	8,125		
Less: provision for doubtful debts	750	7,375	
Cash		20	
		15,395	
Current liabilities:			
Creditors			
Bank overdraft	7,125	23,170	(7,775)
	16,045		36,250
Financed by:			
Capital income:			
Emojong			12,500
Barmoi			7,500
Kimani			5,000
			25,000
Current accounts:			
Emojong		5,000	
Barmoi		3,750	8,750
			33,750
Long term liabilities:			
Loan – Emojong			2,500
			36,250

Additional information:

1. Premium have been paid on life assurance policies for each partner to provide the firm with cash on death. The premiums have been charged to insurance expense and the cash payable on death of any partner is Sh.5,000,000.

2. The assets were duly sold and the monies received as follows:

		Sh. „000"
14 June 2002	Life policy on Emojong"s life	5,000
	Life policy on the lives of Barmoi and Kimani surrendered	2,500
	Freehold land and buildings	25,000
16 July 2002	Debtors (part)	3,750
	Stock (part)	2,500
20 August 2002	Plant and machinery	6,375
	Fixtures and fittings	1,500
	Motor vehicles	625
15 October 2002	Stock (Remainders)	4,500
	Debtors (Remainders)	5,250

3. Provision was to be made for dissolution expenses of Sh.300,000.
4. As soon as sufficient money was available to pay all outstanding creditors, this was done, discounts being received amounting to Sh.125,000.
5. Dissolution expenses amounted to Sh.250,000 and this was paid on 31 October 2002.

Required:

(a) Statement showing how the proceeds of the dissolution would be shared between the partners (12 marks)
(b) Realisation account (5 marks)
(c) Capital accounts (3 marks)

(Total: 20 marks)

QUESTION TWO

Traders Limited operates two branches one in the head office in Nairobi and the other in Busia. Purchases of stock are made exclusively by the head office branch which does some modification to the stocks before they are sold. Goods are sent to the Busia branch at modified cost plus 10% and all sales by both Busia branch and head office branch are made at a gross profit of 25% on the modified goods.

The trial balances as at 30 June 2002 before taking account of the under mentioned adjustments were:

	Nairobi Branch		Busia branch	
	Sh. „000"	Sh. „000"	Sh. „000"	Sh. „000"
Capital		1,550		
Purchases	9,847.5			
Cost of modification	252			
Drawings by the owner	275			
Sales		6,400		4,100
Goods sent/received by branch		4,620	4,400	
Selling and general expenses	945		106	
Debtors/Creditors	1,548	3,007	568	54
Branch and head office current accounts	1,949			1,307.5
Bank balances	760		387.5	
	15,577	15,577	5,461.5	5,461.5

Additional information:

1. Goods worth Sh.220,000 sent to Busia branch in June 2002 were not received ir recorded by the branch until July 2002 while a remittance of Sh.421,500 from the Busia branch to the head office in June 2002 was not received or recorded at head office until August 2002. Any adjustmenta in respect of these items are to be made in the head office accounts
2. There was a shortage in stocks of selling value of Sh.100,000 at the Busia Branch. There was no shortage of surplus at the head office.
3. Unmodified goods costing Sh.500,000 were at the Nairobi branch as at 30 June 2002.
4. There was no loss or wastage in the process of modification of stocks by the head office. The branch handles only goods received from the head office.

Required:

Prepare in columnar form for the Nairobi branch, Busia branch and the combined business.

(a) The trading and profit and loss account for the year ended 30 June 2002 (12 marks)
(b) The balance sheets as at 30 June 2002. (8 marks)

(Total: 20 marks)

QUESTION THREE

(a) ABC Ltd. purchased equity shares in XYZ Ltd. for Sh.56 million when the latter"s retained profits were Sh.88 million. The retained earnings of XYZ Ltd. now are Sh.100 million. ABC Ltd. holds 25% of XYZ Ltd."s equity shares and has amortised Sh.3 million premium on acquisition. XYZ Ltd has declared ordinary dividends of Sh.4 million.

Required:

Determine the value of ABC Ltd."s investment in XYZ Ltd. using the equity method of accounting for associate companies. (5 marks)

(b) G. Limited is a large manufacturing company that manufacture a wide range of products. Due to the fluctuating nature of economic environment, the company"s management has sought to diversify its interests by purchasing shares in other companies in order to improve its reported performance. It has been G. Ltd"s policy to appoint a director to the board of any company where its investment comprises more than 20% of the equity share capital, so as to take an active in the management of the said company.

The following investment have been made:

- On January 2001, 15% of the ordinary share capital of C Limited
- On 1 July 2001, 30% of the ordinary share capital of B. Limited
- On 1 July 2001, 75% of the ordinary share capital of T. Limited and also 5,000 of the 10,000, 9% preference shares of Sh.10 each in that company.
- The draft profit and loss accounts of the four companies for the year ended 30 June 2002 were as shown below

	G. Ltd.	C. Ltd.	B. Ltd.	T. Ltd.
Turnover	2,100,000	3,900,000	1,900,00	1,200,000
Trading profit	250,000	400,000	210,000	126,000
Dividends receivable:	46,500	-	-	-
	296,500	400,000	210,000	126,000
Corporation tax:	(90,000)	(170,000)	(85,000)	(51,000)
Profit after tax:	206,500	230,000	125,000	75,000
Less: Proposed dividends:				
Preference shares	-	(6,000)	-	(9,000)
Ordinary shares	(132,000)	(100,000)	(60,000)	(32,000)
Retained profits:	74,500	124,000	65,000	34,000
Balance brought forward	450,000	306,000	235,000	200,000
Balance carried down.	524,000	430,000	300,000	234,000

Additional information:

1. Included in the stock of T. Ltd. were goods purchased from G. Ltd. for Sh.24,000 after acquisition. G. Ltd. realized its usual 25% gross profit margin on this transaction.
2. The dividend due from C. Ltd have not yet been incorporated in the draft profit and loss account of G. Ltd.
3. There was no goodwill arising on consolidation.

Required:

The consolidated profit and loss account of G. Limited and its subsidiary for the year ended 30 June 2002. (15 marks)

(Total: 20 marks)

QUESTION FOUR

(a) List and explain briefly the powers of liquidator (5 marks)

(b) Hasara Ltd makes its accounts each year 31 October and has been trading at a loss. On 31 October 2002, 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			2,750
			13,750
Current assets:			
Stock		8,750	
Debtors		13,375	
Cash		125	
		22,250	
Current liabilities:			
Bank overdraft	3,750		
Creditors	11,250		
Interest payable (5% debentures)	500	(15,500)	6,750
			20,500
Paid up capital:			
10,000 10% cumulative preference shares of Sh.500 each fully			5,000
paid			12,500
25,000 Ordinary shares of Sh.500 each fully paid			2,500
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			20,000
Revenue reserves: profit and loss account			(9,500)
Non Current liabilities:			10,000
5% debentures			20,500

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. (15 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain the following terms as used in bankruptcy acts:

(i) Voluntary transfers (2 marks)
(ii) Doctrine of reputed ownership (3 marks)

(b) Wafanyakazi Retirement Benefit Scheme has provided you with the following extract of the trial balance for the year ended 31 October 2002:

	Sh."000"	Sh."000"
Accumulated fund as at 1 November 2001		461,560
Accrued expenses		240
Administration expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Lumpsum retirement benefits	4,820	
Contributions due in 30 days	4,940	
Normal contributions by:		36,480
Employer		18,240
Employees		3,150
Transfer in from other schemes		
Individual transfers out to other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Government securities (long-term)	263,605	
Members" voluntary contributions		4,560
Pension	7,640	
Equity investments: Quoted	87,835	
Unquoted	19,900	
Unpaid benefits		320
	571,950	571,950

Required:

(i) Statement of changes in net assets for the year ended 31 October 2002. (8 marks)
(ii) Statement of net assets as at 31 October 2002. (7 marks)

(Total: 20 marks)

JUNE 2011

QUESTION ONE

Athi River Cement (ARC) Ltd. is a company quoted on the Nairobi Stock Exchange. It makes up its accounts to 31 March each year. The balance of the company as at 31 March 2003 is as follows:

	Sh. Million	Sh. Million
Administrative expenses	99	
Borrowings		103
Buildings: Valuation at 1 April 1998	180	
Accumulated depreciation		30
Capital work in progress	74	
Cash and bank balances	5	
Cost of sales	601	
Compensating tax payable		8
Deferred income taxes		151
Deferred expenditure	15	
Distribution costs	109	
Finance leases payable		7
Finance costs	27	
Finance income		2
Inventories	186	
Other operating expenses	3	
Other operating income		4
Plant and machinery: Cost	907	
Accumulated depreciation		283
Prepaid operating lease rental: Cost	80	
Amortisation of prepaid operating lease rental		20
Revaluation reserve		110
Share capital		450
Share premium		188
Taxation	17	
Turnover (net of VAT)		884
Trade and other payables		160
Trade and other receivables	194	
Revenue reserve		95
Unclaimed dividends		2
	2,497	2,497

Additional information

1. Borrowings comprise:

	Sh.million
Bank overdraft (interest are payable in the year 20%)	53
Bank loan, repayable 31 March 2005 (interest rate 13% fixed)	50
	103

2. Buildings: Historical cost 60

    Depreciation charge for the year included in cost of sales 6

    ARC"s accounting policy in relation to the difference between depreciation based onthe revalued amount of buildings (Sh.6 million) and depreciation based on the buildings" historical cost (Sh.2 million) is to treat it as revaluation surplus realized as the buildings are used. This transfer for the year has not yet been made.

The buildings had been revalued by Roy and Samika, Registered Valuers and Estate Agents, on an open market basis.

Accumulated depreciation on historical cost of buildings as at 31 March 2003 was Sh.20 million

No impairment losses have occurred in the life of the company

3. Capital work in progress relates to ongoing construction of a new kin.

4. The compensating tax payable was in respect of the previous year"s dividend paid in the year.

The directors have proposed that a dividend of 10% be paid for the year ended 31 March 2003. No entry has been made in the financial statements to reflect this. Proposed dividends are accounted for as a separate component of equity until they have been ratified at a general meeting.

5. Deferred expenditure represents development costs relating to production of new products that are written off over four years. Expenditure of Sh.20 million was incurred early in the year to 31 March 2003. The amortisation charge for the year was Sh.5 million.

6. The tax expense for the year is as follows:

	Sh. Million
Current taxation based on adjusted profit at 30%	-
Deferred tax expense	17
	17

Ignore deferred tax on the revaluation surplus

7. Finance lease payable comprise:

	Minimum lease payments Sh. Million	Present value of minimum lease payments Sh. Million
Payable within one year	3	5
Payable later than one year but not later than five years	8	5
	11	7

8. Finance costs comprise:

	Sh. Million
Interest on bank loan	9
Interest on bank overdraft	16
Interest on finance leases	2
	27

9. Finance income:

	Sh. Million
Interest received on bank deposits	2

10. Inventories comprise:

	Sh. Million
Raw materials	48
Work in progress	29
Finished goods	51
Stores and spares	58
	186

11. The depreciation charge for the year on the plant and machinery was Sh.52 million

and the amortisation charge of the prepaid operating lease rental was Sh.2 million
All depreciation and amortisation charges are included in cost of sales

12. Other expenses included in the various functional expenses or cost of sales are:

	Sh. Million	Sh. Million
Directors" emoluments: Fees	2	
Other emoluments	12	14
Other staff costs: Wages and salaries	81	
Social security cost (NSSF)	2	
Termination benefits	3	86
Auditors" remuneration		2
Loss on disposal of motor vehicles		3
		105

The average number of staff employed by the company during the year was 603.

13. The authorized share capital of the company is made up of 90 million ordinary shares of Sh.5 each.

Required:

Prepare the Income Statement and the Statement of Changes in Equity for the year ended 31 March 2003 and the Balance Sheet as at 31 March 2003. ARC Limited prepares its Balance Sheet showing Total Assets and Total Equity and Liabilities. Any notes necessary to ensure that the Financial Statements are prepared in accordance with Internation Financial Reporting Standards should be added, but using only the information included above. Do not compute the Earnings Per Share for the year.

QUESTION TWO

Kioko, Licha and Mengo had started a partnership on 1 April 1992 when they contributed capital of Sh.9 million, Sh.3 million from Kioko, Sh.2 million from Licha and Sh.4 million from Mengo. No salaries were to be paid to any of the partners, but interest would be credited at 20% per annum – computed on these amounts – and any remaining profit was to be shared equally amongst the partners.

As at 31 March 2002, the balance sheet of the partnership was as follows (shown horizontally for conciseness):

Assets:				Capital and Liabilities	Kioko	Lich	Mengo	Total
Property, plant and equipment				Capital	Sh."000"	Sh."000"	Sh."000"	Sh."000"
	Cost	Depreciation	NBV	Fixed Capital				
	Sh."000"	Sh."000"	Sh."000"	Accounts	3,000	2,000	4,000	9,000
Freehold land	2,000	Nil	2,000	Current Accounts	3,190	2,000	1,500	6,600
Buildings	3,000	900	2,100					
Plant and machinery	12,000	3,000	9,000	Current Liabilities				
Motor vehicles	4,000	3,000	1,000	Trade payables				7,360
	21,000	6,900	14,100					
Current assets:								
Inventory		4,400						
Trade receivables		3,400						
Cash at bank		1,150	8,950					
			23,050					23,050

The business was run by the partners to 31 March 2003. They decided to convert the partnership into a limited company with effect from 1 April 2003. This was to be achieved as follows:

1. Property, plant and equipment had been depreciated on opening cost (no assets had been bought or sold in the year to 31 March 2003) by 3% on buildings, 12½% on plant and machinery and 12½% on motor vehicles. The company would take over the land, buildings, plant and machinery at Sh.5 million, Sh.4 million and Sh.10 million respectively. The partnership owned three motor cars which had all be bought at the same time: the one Kioko uses cost Sh.1.6 million; the one Licha uses cost Sh.1.4 million; the one Mengo uses cost Sh.1 million; all the cars have a useful life of eight years and a residual value of nil. Each partner was to take over the motor car he uses – Kioko"s for Sh.400,000,Licha"s for Sh.260,000 and Mengo"s at Sh.205,000.

2 Inventory valued at cost for Sh.5.2 million was to be transferred to the company for Sh.5.7 million. One trade receivable for Sh.1.2 million was to be collected personally by Kioko; the partners estimated that only Sh.840,000 would be collected from this debtor. Sh.2.9 million, the balance of trade receivables, would be transferred to the company at book value. Trade payables in the partnership at 31 March 2003 stood at Sh.5.1 million. If payment could be made by 30 April 2003, this liability could be settled for Sh.4.5 million. It was agreed by the three partners that they would introduce Sh.3.22 million immediately to raise the cash in the business to an amount just sufficient to clear this liability immediately so that trade payables could be transferred at Sh.4.5 million. The actual payment to creditors was made by the company a few days later. Kioko paid Sh.1,225,000 into the partnership bank account; Licha paid in Sh.355,000 and Mengo paid in Sh.1,640,000.

3. The new company, Kiligo Limited, had an authorized share capital of 2 million shares of Sh.10 each. These shares would be issued to the partners at a premium of 50% in satisfaction of the purchase consideration.

4. Kioko had made drawings of Sh.1,440,000 in the year, Licha Sh.960,000; Mengo Sh.1,200,000.

Required:

(a) Prepare the realization account of the partnership as at 31 March 2003 (8 marks)
(b) Prepare the partners" capital accounts for the year ended 31 March 2003 (current accounts should be closed off to the capital accounts as early as possible) (8 marks)

(c) Prepare the opening Balance Sheet of Kiligo Limited. (4 marks)
(Total: 20 marks)

QUESTION THREE

Mapito Limited is an insurance company with a head office in Nairobi and branches in all the major towns in Kenya. Each branch maintains a separate set of books. However, for control purposes, all the property, plant and equipment I the branches are carried in the head office books, as are depreciation accounts for all these items.

The current accounts between the head office and the Mombasa branch do not agree at the company"s year-end, 31 March 2003. the accounts had been agreed at the previousyear end 31 March 2002. The difference in the current accounts is due for the following items:

1. Bamburi Beach Hotel has a number of policies with Mapito Limited. Since it is a large client, these policies are dealt with by the head office in Nairobi. The hotel had paid Sh.846,000 by cheque to the Mombasa branch on 1 January 2003 for the year to 31 December 2003. The Mombasa branch credited the Fire Premium Account with this amount.

   At 31 March 2003, the head office showed Bamburi Beach Hotel as a debtor in this amount, the income aspect of the transaction having been accounted for correctly.

2 Likoni Ferries Limited sold one of its ferries on 30 September 2002. It informed the branch in Mombasa of this fact, and requested a credit note for the return premium in the amount of Sh.228,000. The Mombasa branch had never issued the credit note as required, but a credit note had been issued by the head office on 19 March 2003 for the sum involved, being recorded in the premium account as a return premium in the head office books. Likoni Ferries Limited has no account in the head office books. The other side of the return premium has ben accounted for correctly. The head office Chief Accountant wants every aspect of the return premium accounted for correctly.

3. A cheque for Sh.650,000 was sent by the Mombasa branch to the head office in Nairobi on 15 August 2002. This cheque has never been received in the head office. The Mombasa branch issued a stop order to its bank on 18 March 2003, after the cheque had already gone stale. No entry has been made in the head office books in relation to this cheque, but it is still included in the Bank Reconciliation Statement prepared by Mombasa branch as at 31 March 2003.

4. The General Manager and the Chief Accountant of the head office traveled to Mombasa for the working week from 10 February to 14 February 2003. The travel expenses and accommodation in Mombasa were paid for the head office in the amount of Sh.68,000, and were charged to Mombasa branch. The debit note was mistakenly paid to Rainbow Travels in Nairobi in the amount of Sh.68,000 by Mombasa branch. Mombasa branch had charged these visits to the head office. However, the expenses of the visits should be charged to the Mombasa Branch Travel Expenses Account.

5. Mombasa branch bought new air-conditioning units for Sh.960,000 on 1 April 2002. This amount was charged to office repairs by Mombasa branch. However, it should have been capitalized and depreciated using the straight-line method with a residual value of nil and a useful life of 10 years.

6. The motor car provided to the manager of the Mombasa branch had cost Sh.1,200,000 and had been depreciated by 75% (residual value nil) at 31 March 2002. The manager took over this car at an Automobile Association (AA) valuation of Sh.280,000 as at 31 March 2003. Although the logbook of the car shows the owner of the car to be the manager at 31 March 2003, no entry has been made for the depreciation of the car for the year – its useful life is four

years – nor for its disposal. The manager had paid for the car by depositing a cheque for Sh.280,000 in the branch"s bank on 25 March 2003 – the branchaccountant had treated this as a loan to the branch. Unfortunately, the cheque was dishonoured by the bank and the branch was charged Sh.2,000 in bank charges. Company policy is that bank charges on dishonoured cheques are payable by the person whose cheque is dishonoured. The branch accountant has not yeat accounted for the dishonouring of the cheque, or for the disposal of the car.

7. The depreciation charge for Mombasa branch for property, plant and equipment other than mentioned above was Sh.670,000. The branch accountant has not yet passed an entry to record this figure, but the head office account had done so.

8. The Mombasa branch had paid China Roads Limited Sh.1,100,000 for goods stolen while in transit in Kilindini Port. The claim was charged as a claim paid by Mombasa branch in the year ended 31 March 2003. However, the original policy was with the head office of Mapito Limited and the claim had been provided for in the amount of sh.1,400,000 in the accounts of the head office for the year ended 31 March 2002.

Required:

Show the journal entries for both the head office and the Mombasa branch, entries required to reconcile the current accounts.
The head office journal and the branch should be kept completely separate. Unearned premiums are calculated on the $\frac{1}{365}$ ths basis, but have not yet been computed in respect of the year. **(Total: 20 marks)**

QUESTION FOUR

The voice of the Nation Limited is a Nairobi based media company. Its Consolidated Income Statement for the year ended 30 April 2003, and its Consolidated Balance Sheets as at 30 April 2002 and 2003 are as follows:

Consolidated Income Statement for the year ended 30 April 2003

		Sh.million
Sales		3,325
Cost of sales		(1,935)
Gross profit		1,390
Distribution costs		(225)
Administrative expenses		(790)
Operating profit		375
Finance costs: Int expense		(8)
Share of results of associate		50
Profit before tax		417
Tax: Group companies	(110)	
Share of associate	(15)	(125)
Profit before minority interest		292
Minority interest		(28)
Profit after tax		264

Consolidated Balance Sheet as at 30 April

	2003 Sh.million	2002 Sh.million
Non-current assets:		
Property, plant and equip.		
(Cost or Valuation)	2,297	2,134
Accumulated	(931)	(733)
Depreciation	1,366	1,401
Intangible asset: Goodwill	126	126
Amortisation	(30)	(17)
	96	109
Investment in associate	263	246
	1,725	1,756
Current assets:		
Inventories	276	178
Receivables and	607	623
prepayments	93	71
Cash and cash equivalents	976	872
Current Liabilities:		
Payables and accrued	615	484
expenses	22	16
Current tax	8	133
Borrowings: bank overdraft	645	645
	331	331
Net current assets	2,056	1,940
Capital and reserves:		
Share capital	500	500
Revaluation reserve	260	133
Retained earnings	839	725
Shareholders" funds	1,599	1,413
Minority interest	240	204
Non-current liabilities:		
Borrowings: commercial	110	200
paper	107	123
Deferred tax	217	323
	2,056	1,940

Additional information:

1. The holding company, the subsidiary and the associate had all paid dividends during the year.

   A class of assets in the subsidiary had been revalued during the year. Depreciation of Sh.20 million had been written back on the revaluation. The transfer to the revaluation surplus account in the subsidiary was Sh.120 million. The minority interest owns 40% of the share capital of the subsidiary.

   Property, plant and equipment which had cost Sh.100 million and on which accumulated depreciation stood at Sh.47 million at 30 April 2002 was sold for Sh.70 million in the year.

   The group classifies interest paid as an operating cash flow, there were no accruals at the beginning or at the end of the year in respect of this item. It classifies dividends received as an investing activity and any dividends paid as an investing activity. The bank overdraft is classified as a component of each and cash equivalent.

Required:

Prepare the Consolidated Cash flow Statement for the year ended 30 April 2003 for the group using the indirect method. **(Total: 20 marks)**

QUESTION FIVE

Kiura and Maina are life tenants of a trust set up by their uncle. The trustees have investment powers restricted to those contained in the Trustee Act (Chapter 167 of the Laws of Kenya) except they could hold at their absolute discretion 300,000 shares of Sh.10 each in Kilimanjaro Enterprises Limited, a horticultural exporting company run by the uncle..
On 31 March 2002, the balance sheet of the trust was as follows:

		Sh."000"	Sh."000"
Fixed interest investment:	Sh.2 million 10% Kenya stock 2007 (cost)	2,000	
	Sh.2 million 9% Kenya stock 2006 (cost)	1,800	
	Cash at bank	200	
			4,000
Wider range investments:	40,000 shares of Sh.100 in E.A. Breweries Ltd (cost)		4,000
Special range investment:	300,000 shares in Kilimanjaro Enterprises Ltd. (cost)		3,000
			11,000
Trust capital			4,000
Fixed interest fund			4,000
Wider range fund			3,000
Special range fund			11,000

In the year to 31 March 2003, the following occurred:

2002

30 June — Interest for the year ended 30 June 2002 was received on 10% Kenya stock.

30 September — School fees for Kiura and Maina were paid immediately using the whole amount received.

30 September

31 December — A final dividend of 75% for the year ended 30 June 2002 was received from E.A. Breweries Ltd. (payout rate 10%).

2003

28 February — The E.A. Breweries Ltd. shares were sold at Sh.110 each. At the same time, a satisfactory buyer was found for the 300,000 shares in Kilimanjaro Enterprises Limited – these shares were sold for Sh.15 each. Some high yielding 12%Kenya stock 2008 was available at par on this date. It was decided to use all the wide range cash available to purchase this stock and designate it a wider range investment.

Interest was received for the year on the 9th Kenya stock and Sh.42,000 interest was received on the fixed interest cash at bank.

61,250 Sh.10 ordinary shares in ICDI Limited were purchased for Sh.40 per share using the fixed interest cash and a suitable swich was made to ensure adherence to the requirements of the Trustee Act. The market value of the 12% Kenya stock on this date was still par.

31 March	All remaining income cash was paid across to the life tenants, after trust administration expenses of Sh.120,000 were paid for the year.

Required:

(a) Write up the trust cash account, the income account (showing payments to beneficiaries in this account) and the trust capital account for the year ended 31 March 2003. (9 marks)

(b) Prepare the trust balance sheet as at 31 March 2003. (6 marks)

(Total: 15 marks)

DECEMBER 2011

QUESTION ONE

Kijiko and Sahani, who prepare their accounts annually to 30 September, are partners in retail business sharing profits and losses in the ratio of 3:2 respectively.

On 31 March 2003, Kijiko retired and Mwiko was admitted as a partner, profits and losses from that date being shared between Sahani and Mwiko in the ratio of 2:1 respectively. For the purpose of these changes, the value of the firm"s goodwill was agreed at Sh. 900,000. No account for goodwill is maintained in the books, adjusting entries for the transactions between the partners being made in their current accounts.

Interest on fixed capitals is allowed at 6% per annum but no interest is charged or allowed on current accounts. The amount due to a retiring partner is payable as to Sh. 250,000 on retirement, the balance being payable in five equal annual instalments commencing on the first anniversary of his retirement. The amount due to retiring partner attracts interest at the rate of 8% per annum.

The trial balance of the partnership as at 30 September 2003 was as follows:

	Sh. "000"	Sh. "000"
Leasehold premises (bought on 1 October 2002)	800	
Purchases	2,040	
Motor vehicles at cost (30 September 2002)	420	
Provision for depreciation – motor vehicles (30 September 2002)		180
Shop fittings at cost (30 September 2002)	180	
Provision for depreciation – shop fittings (30 September 2002)		60
Balance at bank	148	
Salaries	640	
Stock (30 September 2002)	510	
Sales (Sh. 1,393,300 for six months to 31 March 2003)		3,800
Cash paid to Kijiko	250	
Debtors	80	
Creditors		360
Professional charges	54	
Wages	380	
Rates and lighting	168	
General expenses (Sh. 172,000 for six 31 March 2003)	410	
Cash introduced by Mwiko		400
Capital accounts: - Kijiko		500
- Sahani		300
Current accounts: - Kijiko		220
- Sahani		260
	6,080	6,080

Additional information:

1. It was agreed that of the Sh. 400,000 introduced into the firm by Mwiko on 1 April 2003, Sh. 100,000 should form his fixed capital, the balance being credited to his current account
2. The stock as at 30 September 2003 was valued at Sh. 560,000.

3. Provision is to be made for depreciation on motor vehicles and shop fittings at the rates of 20% per annum and 10% per annum respectively on cost at the end of the year.
4. A motor vehicle which had cost Sh. 120,000 and on which depreciation of Sh. 48,000 had been provided, was taken over by Kijiko on his retirement at its down value.
5. The following drawings by partners are included in salaries:

	Sh. "000"
Kijiko	60
Sahani	40
Mwiko	20

6. As at 30 September 2003, rates paid in advance amounted to Sh. 22,000 and provision of Sh. 8,000 for general expenses was required.
7. A difference in the books of accounts of Sh. 10,000 had been written off at 30 September 2003 to general expenses but had later been found to be due to an undercast of similar amount in the purchases journal
8. Professional charges include Sh. 20,000 paid in respect of the acquisition of the leasehold premises. The total cost of the lease is to be written off over a period of 50 years.

Required:

(a) The trading and profit and loss account for the year ended 30 September 2003, (Gross profit is to be apportioned on the basis of turnover. Unless otherwise indicated, expenses are to be apportioned on a time basis). (10 marks)

(b) The partner"s current accounts as at 30 September 2003. (4 marks)

(c) The balance sheet as at 30 September 2003. (6 marks)

(Total: 20 marks)

QUESTION TWO

Amini Ltd. is a manufacturing business with the head office in Nairobi Kenya, and a branch in Kampala, Uganda. The branch carries out the final assembly of the goods before selling them. The trial balances for both the head office and the branch in their respective currencies as at 31 October were as follows:

	Head office Sh. "000"	Head office Sh. "000"	Branch Ush. "000"	Branch Ush. "000"
Freehold building at cost	28,000		126,000	
Debtors and creditors	17,800	19,000	72,000	3,120
Sales		208,000		864,000
Shares capital		80,000		
Goods sent to branch		70,000		
Head office/branch account	120,200			1,008,520
Cost of sales – branch			720,000	
Provision for deciation on machinery		3,000		113,400
Head office cost of sales (including goods sent to branch)	118,000			
Administration costs	30,400		36,000	
Stock – 31 October 2003	57,800		23,040	
Profit and loss account – 1 November 2002		4,000		
Machinery at cost	12,000		252,000	
Remittances		56,000	544,000	
Bank balance	9,200		158,400	
Selling and distribution costs	46,600		57,600	
	440,000	440,000	1,989,040	1,989,040

Additional information:

1. The cost of sales figure includes a depreciation charge of 10% per annum on the cost of machinery.
2. A provision of Kshs. 600,000 for unrealized profit in the branch stock is to be made.
3. The branch remitted Ushs. 32,000,000 on 30 October 2003 which was not received by the head office until 3 November 2003. The amount realized was Kshs. 3,980,000.
4. During September 2003, a customer of the branch paid the head office for goods supplied by the branch. The amount due from him was Ushs. 640,000 which realized Kshs. 72,000. It has been correctly dealt with by the head office but not yet entered in the branch accounts.
5. Commission, which is payable to the branch Manager, is to be provided at 5% of the net profits of the branch after charging such commission.
6. The relevant exchange rates were as follows:

	Kshs.	To	Ushs.
On 1 November 2002	1		10
On 31 October 2003	1		8
Average rate for the year ended 31 October 2003	1		9
On date of purchase of freehold building and machinery	1		7

Required:

(a) Branch trial balance (after the necessary adjustments) in Kenya shillings. (6 marks)

(b) Trading profit and loss account for the head office, the branch and the combined business for the year ended 31 October 2003. (6 marks)

(c) Combined balance sheet as at 31 October 2003. (8 marks)

(Ignore the effects of taxation). **(Total: 20 marks)**

QUESTION THREE

Rain Ltd., Storm Ltd. and Thunder Ltd. are in the business of manufacturing tents. Their balance sheets as at 30 September 2003 were as below:

	Rain Ltd.		Storm Ltd.		Thunder Ltd.	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Non-current assets:						
Non-current assets (net of depreciation)		14,000		6,300		1,700
Shares in subsidiaries		5,000		1,900		-
		19,000		8,200		1,700
Current assets:						
Stocks	2,000		1,200		1,600	
Trade debtors	4,800		2,000		800	
Cash	2,700		1,400		1,100	
	9,500		4,600		3,500	
Current liabilities:						
Trade creditors	(5,000)		(2,600)		(1,800)	
Net current assets		4,500		2,000		1,700
		23,500		10,200		3,400

Financed by:	Rain Ltd.	Storm Ltd.	Thunder Ltd.
Authorised and issued Share capital:			
Ordinary shares of Sh.100 Each fully paid	15,000	5,000	2,000
10% preference shares of Sh. 100 each fully paid	-	3,000	-
General reserve	6,000	3,000	1,000
Profit and loss account balance	2,500	(800)	400
	23,500	10,200	3,400

Additional information:

1. Rain Ltd. purchased 30,000 ordinary shares in Storm Ltd. on 1 October 2001 for Sh. 3,400,000 and 5,000 preference shares on 1 October 2002 for Sh. 600,000. On 1 October 2002, Rain Ltd. purchased 5,000 ordinary shares in Thunder Ltd. for Sh. 1,000,000. Storm Ltd. purchased 11,000 ordinary shares in Thunder Ltd. for Sh. 1,900,000 on the same date.

2. Balances are as given below:

	Profit and loss account	
Storm Ltd.	1 October 2001	Sh. 500,000 (debit).
	1 October 2002	Sh. 600,000 (debit).
Thunder Ltd.	1 October 2002	Sh. 300,000 (debit).

	General reserve	
Storm Ltd.	1 October 2001	Sh. 1,000,000
	1 October 2002	Sh. 2,000,000
Thunder Ltd.	1 October 2002	-

3. The following inter-company balance are included in the balances of trade debtors and trade creditors:

Debtors:	Rain Ltd.	Sh. 600,000 due from Thunder Ltd.
	Thunder Ltd.	Sh. 300,000 due from Rain Ltd.
		Sh. 200,000 due from Thunder Ltd.

4. On 30 September 2003, thunder Ltd. remitted Sh.200,00 to Rain Ltd. which was not received until 3 October. There were no other inter-company balances.
5. Rain Ltd. sold goods to Storm Ltd. for Sh.800,000. The goods had originally cost Rain Ltd. Sh.600,000. Storm Ltd. still had Sh.200,000 worth of these goods (at invoiced price) in stock as at 30 September, 2003.

Required:

Consolidated balance sheet of Rain Ltd. and its subsidiaries as at 30 September 2003.

(Total: 20 marks)

QUESTION FOUR

A compulsory winding up order was made on 30 November 2003 against Hasara Ltd. A summary of the company"s balance sheet as at that date was as follows:

Non-current assets:	Sh. "000"	Sh. "000"	Sh. "000"
Goodwill			
Freehold property			2,689
Plant and machinery			4,940
Shares in subsidiaries			14,620
			22,249
Current assets:			
Stocks		19,180	
Debtors		9,040	
Cash in hand		20	
		28,240	
Current liabilities:			
Bank overdraft	22,790		
Creditors	20,900		
Customs and excise tax	200		
Accruals	399		
Debenture interest due	100	(44,389)	(16,149)
			6,100
Financed by:			
Share capital 5,000,000 ordinary shares of Sh.20 each – fully paid			10,000
400,000 ordinary shares of Sh.20 each- Sh.12.50 paid			5,000
			15,000
Revenue reserves:			
Retained profits (losses)			(12,900)
Shareholders" funds			2,100
Non-current liability:			
10% debentures			4,000
			6,100

Additional information:

1. The 10% debentures are secured by a first charge on freehold property and the bank overdraft is secured by a floating charge on the assets.
2. The accruals consisted of:

	Sh. "000"
Directors fee, 6 months to 30 November 2003.	75
Managers salary, 2 months to 30 November 2003	80
Wages of 3 workmen, 4 weeks to 30 November 2003	18
Rates – half year to 30 November 2003	20
Taxes for the year to 30 November 2001	120
Miscellaneous expenses	86
	399

3. A holder of 20,000 of the partly paid shares was bankrupt and it was anticipated that his trustees would be in a position to pay a dividend of 25% to his unsecured creditors.

4. The company"s assets were estimated to be realized as follows:

	Sh. "000"
Freehold property	4,480
Plant and machinery	14,000
Stocks	18,760

5. The debtors were considered to be good except as to Sh. 520,000 of which Sh. 400,000 were doubtful and were expected to realize Sh.110,000. The remaining Sh.120,000 were considered bad. Goodwill was regarded as valueless.
6. Legal proceedings for breach of contract were pending against the company as at 30 November 2003. The company was considered to have a poor defence and attempts were being made to settle the claim out of court for Sh.100,000 plus costs estimated at Sh.80,000. No provision for this claim is included in the balance sheet.
7. The company had incurred losses of Sh.3,040,000, Sh.3,840,000 and 6,020,000 respectively in each of the three years ended 30 November 2003. The aggregate of the sums charged to the profit and loss accounts during the three years in respect of depreciation, debenture interest and directors" remuneration were Sh.2,380,000, Sh.600,000 and Sh.1,800,000 respectively.

Required:

(a) Statement of affairs as at 30 November 2003. (10 marks)
(b) Deficiency account as at 30 November 2003. (10 marks)
(Total: 20 marks)

QUESTION FIVE

(a) In the creation of a trust, the "three certainties" are necessary

Explain what the three certainties are, giving an example of each and indicating the effect of the failure of each. (6 marks)

(b) Aviha died in 1997 and left, by his will, the residue of his estate to his children, Reuben and Levi, in equal shares. The will directed that a child"s share of the estate should be ascertained and discharged on reaching twenty-one years of age. The trustees were empowered to maintain the children out of the income and to use their unfettered discretion in the choice of investments.

The trial balance extracted from the books of the trust as at 31 July 2003 was as follows:

	Sh. "000"	Sh. "000"
Investment on estate capital account		
20,000 shares of Sh.100 each in ABC Ltd.	2,200	
30,000 shares of Sh.100 each in Mapingo Ltd.	2,800	
Investment on accumulation accounts:		
1,000 shares of Sh.100 each in ABC Ltd.	110	
1,000 shares of Sh.100 each in Mapingo Ltd.	90	
Bank balances:		
On estate capital account	200	
On accumulation accounts	50	
Estate capital account		5,200
Accumulation accounts:		
Reuben		150
Levi		100
	5,450	5,450

Reuben attained the age of twenty one years on 31 October 2003,on which date the market prices of the investments were:

ABC Ltd. Shares	Sh.125
Mapingo Ltd. Shares	Sh. 100

Transactions in the three months to 31 October 2003 comprises:

1 August 2003: Receipt of dividend of Sh.5 on each share in ABC Ltd.

31 August 2003: Maintenance payments of Sh.30,000 and Sh.20,000 for Reuben and Levi respectively.

31 October 2003: The trustees revalued all of the investments and discharged their liability to Reuben by the transfer to him of:

a. One-half of each of the investments held on capital accounts.
b. 3/5^{ths} of each of the investments held on accumulation accounts.
c. Cash for the balance of the amount due to him.

Required:

For the three months ended 31 October 2003, prepare the:

(i) Estate capital account. (4 marks)
(ii) Accumulation accounts. (5 marks)
(iii) Distribution to Reuben account. (5 marks)

(Total: 20 marks)

JUNE 2012

QUESTION ONE

On 1 January 2003, H Ltd., a manufacturer of clay products, made the following investments

- Acquired 60% of the ordinary shares of S Ltd. for Sh.80,000,000
- Acquired 40% of the preference shares of S Ltd. for Sh.25,000,000
- Acquired 30% of the ordinary shares of A Ltd. for Sh. 55,000,000
  H Ltd. is represented in the board of directors of A Ltd. by two directors.
  The draft accounts of H Ltd., S Ltd. and A Ltd. for the year ended 31 December

Draft profit and loss accounts as at December 2003

	H Ltd. Sh. "000"	S Ltd.	A Ltd. Sh. "000"
Turnover	600,000	400,000	350,000
Profit before tax	200,000	180,000	100,000
Taxation	(60,000)	(45,000)	(30,000)
Profit after tax	140,000	135,000	70,000
Less proposed dividends:			-
Preference	-	(30,000)	
Ordinary	(60,000)	(60,000)	(40,000)
Retained profits	80,000	45,000	30,000
Balance brought forward	40,000	60,000	50,000
Balance carried forward	120,000	105,000	80,000

Draft profit and loss accounts as at December 2003

	H Ltd. Sh. "000"	S Ltd.	A Ltd. Sh. "000"
Assets:			
Non-current assets	375,000	195,000	135,000
Current assets:			
Stocks	90,000	85,000	60,000
Debtors	80,000	65,000	40,000
Cash at bank	75,000	50,000	45,000
	245,000	200,000	145,000
Total assets	620,000	395,000	280,000
Equity and liabilities:			
Equity:			
Authorized and fully paid:			
3,000,000 ordinary shares of Sh. 100 par value	300,000		
1,000,000 ordinary shares of Sh. 100 par value		100,000	100,000
500,000 Preference shares of Sh. 100 par value		50,000	
Profit and loss account balance	120,000	105,000	80,000
	420,000	255,000	180,000
Liabilities			
Current liabilities:			
Creditors	80,000	35,000	30,000
Proposed dividends	60,000	60,000	40,000
Taxation	60,000	45,000	30,000
	200,000	140,000	100,000
Total equity and liabilities	620,000	395,000	280,000

2003 were as follows:

Additional information:

1. Non-current assets of H Ltd. include the cost of investments in S Ltd. and A Ltd.
2. H Ltd. has not accounted for dividends receivable from S Ltd. and A Ltd. H Ltd. accounts for dividends due to minority interests as a current liability.
3. The assets in A Ltd. are to be revalued upwards by Sh. 60,000,000 to arrive at their values.
4. Included in the stocks of S Ltd. were goods purchased from H Ltd. for Sh.5,000,000. H Ltd. had marked up the goods by 25% of their cost.
5. On 15 January 2003, S Ltd. made a bonus issue of 2 shares for every 5 held.

Required:

(a) Consolidated profit and loss account and statement of retained earnings, of H Ltd., its subsidiary and associated company, for the year ended 31 December 2003. (10 marks)

(b) Consolidated balance sheet, of H Ltd., its subsidiary and associated company, as at 31 December 2003. (15 marks)

(Total: 25 marks)

QUESTION TWO

Ali and Bali are in partnership trading as A and B Retailers. Similarly, Cheche and Dunga are in partnership trading as C and D Traders. It was mutually agreed that as at 1 January 2004, the partnership businesses be amalgamated into one firm, ABC and D Enterprises. The profit and loss sharing ratios of the partners both in the old and new partnership were as follows:

	Ali	**Bali**	**Cheche**	**Dunga**
Old firms	4	3	3	2
New firm	6	5	4	3

As at 31 December 2003, the balance sheets of the firms were as follows:

	A and B Retailers		C and D Traders	
	Sh.	Sh.	Sh.	Sh.
Non- current assets:				
Property		740,000		1,000,000
Fixtures and fittings		180,000		140,000
Motor vehicles		300,000		180,000
		1,220,000		1,320,000
Current assets:				
Stock	830,000		660,000	
Investments	80,000		-	
Debtors	680,000		580,000	
Bank balance	340,000		-	
	1,930,000		1,240,000	
Current liabilities:				
Creditors	(520,000)		(600,000)	
Bank overdraft	-	1,410,000	(90,000)	550,000
Net assets		2,630,000		1,870,000
Capital accounts:				
Ali		1,500,000	Cheche	1,100,000
Bali		1,050,000	Dunga	700,000
		2,550,000		1,800,000
Current accounts:				
Ali	30,000		Cheche 30,000	
Bali	50,000	80,000	Dunga 40,000	70,000
		2,630,000		1,870,000

The agreement to amalgamate the firms contained the following provisions:

1. Provision for bad and doubtful debts at the rate of 5% was to be made in respect of debtors and a provision for discount receivable at the rate of $2^1/_2$% was to be made in respect of creditors.
2. ABC and D Enterprises was taken over the old partnerships" assets at the following values:

	A and B Retailers	C and D Traders
	Sh.	Sh.
Stock	845,000	639,000
Motor vehicles	280,000	130,000
Fixtures and fittings	160,000	-
Property	1,000,000	-

3. The property and fixtures of C and D traders were not to be taken over by ABC and D Enterprises. These assets were sold for Sh. 1,350,000 on 1 January 2004.
4. Bali was to take over his firm"s investments at value of Sh.76,000.

5. The total capital of ABC and D Enterprises was to be Sh. 5,400,000. This was to be contributed by other partners in their profit or loss sharing ratios, any adjustments necessary being made in cash.
6. Goodwill relating to the two firms was to be recognized as follows:

A and B Retailers	-	Sh. 630,000
C and D Traders	-	Sh. 450,000

Required:

(a) The relevant accounts to close off the books of A and B Retailers and C and D Traders. (14 marks)

(b) The opening balance sheet of ABC and D Enterprises as at 1 January 2004. (6 marks)

(Total: 20 marks)

QUESTION THREE

Mr. Mwadafu operates a sole proprietorship dealing in cement. The business has a head office in Mombasa and a branch in Athi River. The branch maintains its own books. As at 31 December 2003, the trial balances of the head office and the branch were as follows:

	Shs.	Shs.	Shs.	Shs.
Freehold land and buildings (cost)	1,400,000			
Furniture and equipment (cost)	312,000		100,000	
Debtors	160,000		120,000	
Remittances		1,500,000	1,524,000	
Sales		2,800,000		1,871,660
Cash at bank	80,000		20,000	
Inventory at cost – 1 January 2003	519,000		270,600	
Rent and rates	80,000		40,000	
Goods sent/received, at cost		1,200,000	1,182,500	
Purchases	2,797,980			
Wages and salaries	170,000		130,000	
Branch/head office current account	1,567,560			1,550,060
General expenses	300,000		250,000	
Capital – 1 January 2003		1,788,740		
Creditors		247,800		165,380
Bank overdraft				50,000
Drawings	150,000			
	7,536,540	7,536,540	3,637,100	3,637,100

Additional information:

1. Goods sent to the branch on 24 December 2003 and which had a cost value of Sh.17,500 were stolen in transit. Although the insurance company has agreed to meet the claim to the extent of 60% of the cost, no entry has been made in the books.
2. Inventories at cost on 31 December 2003 were: Head office – Sh.473,700; Branch – Sh.126,450.
3. Depreciation on furniture and equipment is to be provided at the rate of 10% per annum on cost.

4. A commission of 10% is payable to staff both at the head office and branch. The commission is based on net profits before charging these commissions.

Required:

(a) Head office and Branch profit and loss accounts for the year ended 31 December 2003. (10 marks)

(b) Branch current account and head office current account reconciling the balances as at 31 December 2003 (4 marks)

(c) Combined balance sheet as at 31 December 2003. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Briefly explain the meaning of the tem "abatement" (2 marks)

(b) Identify and explain the four classifications of legacies. (8 marks)

(c) The following trial balance was extracted from the books of ABC Retirement Benefits Scheme for the year ended 30 September 2003:

	Sh.	Sh.
Accumulated fund – 1 October 2002		461,560
Accrued expenses		240
General administrative expenses	2,840	
Cash and demand deposits	23,460	
Change in market value of investments	22,640	
Commutations and lumpsum retirement benefits	4,820	
Contributions due within 30 days	4,940	
Employer"s normal contributions		36,480
Individual transfers in from other schemes		3,150
Individual transfers out of other schemes	1,860	
Investment income		47,400
Immovable property	132,320	
Government securities	263,605	
Members" normal contributions		18,240
Members" additional voluntary contributions		4,560
Pensions	7,640	
Equity investments – quoted	87,835	
Unpaid benefits		320
Equity investments – unquoted	19,990	
	571,950	571,950

Required:

(i) Statement of changes in net assets as at 30 September 2003. (6 marks)

(ii) Statement of net assets as at 30 September 2003. (4 marks)

(Total: 20 marks)

[(i) and (ii) above should be in conformity with the requirements of IAS 26 – Accounting and Reporting by Retirement Benefit Plans]

QUESTION FIVE

Matatizo Ltd. went into voluntary liquidation on 30 November 2003. Its balance sheet as at that date was as follows:

	Sh.
Assets:	
Land and building	5,000,000
Plant and machinery	12,500,000
Patents	2,000,000
Stock	2,750,000
Sundry debtors	5,500,000
Cash at bank	1,500,000
Profit and loss account balance	5,625,000
	34,875,000
Equity and liabilities:	
Issued and subscribed capital	
100,000 10% cumulative preference shares of Sh.100 each, fully paid	10,000,000
50,000 equity shares of Sh.100 each, Sh. 75 paid	3,750,000
150,000 equity shares of Sh.100 each, Sh. 60 paid	9,000,000
15% debentures secured by floating charge	5,000,000
Interest outstanding on debentures	750,000
Creditors	6,375,000
	34,875,000

Additional information:

1. Preference dividends were in arrears for two years and the creditors included preferential creditors of Sh.760,000.
2. The assets were realized as follows:

	Sh.
Land and building	6,000,000
Plant and machinery	10,000,000
Patents	1,500,000
Stock	3,000,000
Sundry debtors	4,000,000

3. Liquidation expenses amounted to Sh.545,000. The liquidator is entitled to a commission of 3% on assets realized except cash
4. The final payments (including those relating to debentures) were made on 31 May 2004.

Required:

The liquidator"s final statement of account as at 31 May 1994. **(Total: 15 marks)**

DECEMBER 2012

QUESTION ONE

HAPA Ltd. manufactures and sells a wide range of food products for both wholesale and retail outlets. Its authorized ordinary share capital is 5 million shares of Sh 100 par value.

The company has extracted the following trail balance as at 31 October 2004.

	Sh "000"	Sh "000"
Ordinary share capital: issued and fully paid		300,000
Retained earnings		131,000
10% debentures (secured on buildings)		50,000
8% debentures (secured on a floating charge)		50,000
freehold buildings: Cost	150,000	
Accumulated depreciation		15,000
Plant and machinery: Cost	220,000	
Depreciation		40,000
Additions-plant and machinery	40,000	
Motor vehicles: Cost	25,000	
Accumulated depreciation		10,000
Land	100,000	
Profit for the year		285,820
Trade and other payables		31,400
Trade and other receivables	101,600	
Inventories	163,000	
Balance at Faida Bank		47,000
Directors remuneration	52,000	
Balance at Faulu Bank	3,800	
Investment (market value: Sh. 35 million)	49,620	
Interest received	32,000	
Interim dividends paid		2,100
Tax paid	21,000	
Dividend received	5,700	
		1,400
	963,720	963,720

Additional information

1. Trading profit has been derived as follows:

	Sh. „000"	Sh. „000"
Sales		1,432,000
Cost of sales	927,420	
Distribution costs	82,670	
Administrative expenses	136,090	(1,146,180)
		285,820

2. The 10% debentures are redeemable at par in ten equal annual instalments commencing 1 November 2004, while the 8% debentures are due on 31 July 2005.
3. The corporation tax at 30% on the adjusted profit for the year has been computed at Sh. 53 million.
4. During the year, an item of plant which cost Sh. 20 million on 20 September 2000 was disposed of for Sh. 5 million. The disposal proceeds have netted off against the amount incurred in acquiring new plant and machinery.
5. Depreciation on property, plant and equipment is to be provided on cost and allocated as follows:

	Rate	Basis of allocation
Freehold buildings	$2^1/_2$% per annum	Administrative expenses
Plant and machinery	15% per annum	Cost of sales
Motor vehicles	20% per annum	Distribution costs

A full year"s depreciation is charged in the year of acquisition but none in the year of disposal.

6. Inventories comprise:

	Sh. „000"
Raw materials	50,900
Work-in-progress	24,875
Finished goods	87,225

7. Employees costs included in relevant functional expenses are:

	Sh. „000"
Salaries and wages	478,770
Social security costs	67,500
Pension costs	42,000

Directors" fees amounting to Sh. 3 million have not been provided for.

8. The directors propose to pay a final dividend of Sh. 8 per share.

Required:

(a) Income statement for the year ended 31 October 2004

(b) Balance sheet as at 31 October 2004. include relevant notes, using only the information provided, to ensure that the financial statements are in conformity with International Financial Reporting Standards

Note: Do not prepare a statement of changes in equity.

QUESTION TWO

Nguo Fashion Ltd. has been operating a large retail shop in Nairobi. On 1 July 2003, the directors opened new shops in Nakuru and Kisumu.

All purchases were done in Nairobi branch and goods sent to other branches at a uniform mark-up of $33^1/_3$% on their cost. After deducting petty cash expenses, the branches banked all the collections dairy. The head office paid for other expenses but allowed each branch to keep a cash float of Sh. 100,000.

The records maintained by the office (Nairobi branch), did not contain all transactions relating to the other branches. The accountant at head office was however able to obtain the following details for the year ended 30 June 2004:

	Head office books	
	Nakuru branch	**Kisumu branch**
	Sh. „000"	**Sh. „000"**
Fixtures and fittings (cost)	3,500	4,200
Cash float with branches	100	100
Goods sent to branches (cost)	6,200	7,300
Goods returned from branches (cost)	27,000	36,000
Cash received from branches	300	150
	31,450	43,000

	Branches books	
	Nakuru branch	**Kisumu branch**
	Sh „000"	**Sh „000"**
Sales	32,350	43,340
Cash floats at June 2004	100	100
Sundry expenses	400	340
Banking – head office account	31,450	43,000
Goods returned to head office (selling	400	200
price)	700	
Goods sent to Kisumu branch		200
Goods sent to Nakuru branch	3,300	4,740
Inventory at 30 June 2004 (selling price)	20	15
Damaged inventory – scrapped (selling price)		

Additional information:

1. Nakuru branch purchased goods locally for Sh. 500,00 and sold the at a margin of $33^1/_3$%. At 30 June 2004 the closing inventory, at selling price, included Sh. 60, 000 in respect of these goods.
2. During the year, the branches organized a "sales week" when all prices were reduced by 10%. Sales realized during the week were; Nakuru Sh. 900,000 and
3. Kisumu Sh. 1,080,000.
4. The head office charged each branch Sh. 500,000 in respect of the services rendered.
   Depreciation is to be provided at 10% per annum on fixtures and fittings in each branch.

Required:

(a) Branches stock accounts as at 30 June 2004.

(b) Branches mark – up account as at 30 June 2004.

(c) Goods sent to branches accounts as at 30 June 2004.

(d) Branches profit and loss accounts for the year ended 30 June 2004.

QUESTION THREE

(a) List the circumstances under which a subsidiary should be excluded from the consolidated financial statement

(b) The following balances were extracted from the books of Pine Ltd., Cedar Ltd., and Oak Ltd. as at 31 March 2004.

	Pine Ltd. Sh. „000"	Cedar Ltd. Sh. „000"	Oak Ltd. Sh. „000"
Equity and liabilities:			
Authorized and issued share capital:			
Ordinary shares of Sh. 20 par value fully paid	28,000	12,000	4,000
6% cumulative preference shares of Sh. 20 par value fully paid		3,000	
Profit and loss accounts	10,460	6,300	1,050
5% debentures		1,600	
Provision for depreciation of fixed assets	9,600	5,400	1,600
Debentures interest accrued		80	
Proposed dividends	3,360	1,300	
Creditors	9,140	3,960	2,550
	60,560	33,740	9,200

Additional information:

1. Pine Ltd. acquired the shares of Cedar Ltd., cum dividend on 31 March 2003 and Cedar Ltd. acquired the shares in Oak Ltd. on 31 march 2002.
2. The balances on the income statements of Cedar Ltd. and Oak Ltd. comprises:

	Cedar Ltd. Sh. „000"	Oak Ltd. Sh. „000"
Balances on 31 march 2002	4,520	490
Net profits to 31 March 2003	1,920	400
	6440	890
Less: Provision for proposed dividends (2003)	1,140	-
Balances on Mach 2003	5,300	890
Net profit to 31 Mach 2004	2,400	160
	7,700	1,050
Less: Provision for proposed dividends (2004)	1,380	-
	6,320	1,050

3. The proposed dividends for the year ended 31 March 2003 were subsequently paid by Cedar Ltd. Pine Ltd."s shares of the dividends is included in its income statement.
4. No entries have been made in the books of Pine Ltd. in respect of the debenture interest due from Cedar Ltd. or for the holding company"s share of the proposed dividends in Cedar Ltd.for the year ended 31 Mach 2004.
5. Proposed dividends are inclusive of preference dividends.

Required:

Pine Ltd. group balance sheet as at 2004.

QUESTION FOUR

Nyoike, Kemei, Lasoi and Mutuku, who have been partners in a tile manufacturing business sharing profits and losses in the ratio 4:3:2:1, had a serious disagreement on 15 January 2004 which necessitated a dissolution of the partnership.

For the purpose of dissolution, their accountant extracted a balance sheet as at 1 February 2004 as follows:

	Sh. „000"	Sh. „000"
Non – current assets:		
Land and buildings		21,250.0
Plant and machinery		19,802.5
Furniture and fittings		7,500.0
Investments		5,000.0
		53,552.5
Current assets:		
Inventory	15,870.0	
Debtors	9,602.5	
Balance at bank	782.5	26,255.0
Total assets		79,807.5
Capital and liabilities:		
Capital account: Nyoike		10,000.0
Kemei		17,500.0
Lasoi		10,000.0
Mutuku		7,500.0
		45,000.0
General reserves		17,500.0
Current liabilities:		
Creditors		17307.5
		79,807.5

Additional information:

1. The assets, which were sold on piecemeal basis, realized cash as follows:

		Sh. „000"
10 February	Inventory (partial)	
2004	Debtors (partial)	8,750.0
16 February	Investments	7,330.0
2004	Furniture and fittings	6,050.0
27 February	Land and buildings	5,000.0
2004	Debtors (partial)	17,500.0
03 March 2004	Inventory (balance)	1,250.0
20 March	Plant and machinery debtors	6,875.0
2004:	(balance)	16,400.0
		877.5

   15 April 2004:
2. The partners agreed to set aside Sh. 1.25 million to meet realization expenses. Any cash available for distribution thereafter was to be shared immediately the creditors were paid in full.
3. The realization expenses which amounted to Sh. 1 million were paid on 15 April 2004.

Required:
Using the maximum possible loss method, prepare:

(a) Statement showing how the proceeds should be shared.

(b) Realization account and capital account to close off the book f the partners.

QUESTION FIVE

(a) Briefly explain the meaning of the following terms as used in the law of succession.

(i) Donatio mortis causa.

(ii) Partial intestacy.

(b) Kifo died on 12 March 2003, and by his will made in 2001, bequeathed the following

1. To Linda, my daughter, Sh. 100,000.
2. To Elisha , my son, my house in Thome.
3. To Lita, my wife, Sh. 500,000 on condition that she does not marry again.

The executor has established that:

- Kifo gave Linda Sh. 60,000 in 2002 to enable her open a salon.
- The contract for the purchase of the house in Thome was completed in June 2004.
- Lita is engaged to Kisongo and their wedding is scheduled for 31 December 2004.

Required:
Explain how the executor should deal with each bequest.

(c) Onyango died intestate, leaving his two wives Atieno and Akinyi whom he married under a system of law which permits polygamy. Anyango, his second wife had predeceased him leaving two children, Suswa and Supra who are still alive. Atieno has three surviving children: Pamela and Obama while Akinyi has no children.

Onyango"s estate consists of:

1. Personal effects Sh. 400,000.
2. Household effects Sh. 1,000,000.
3. Motor vehicle Sh. 500,000.
4. Residue Sh. 3,000,000.

Required:
A statement showing how Onyango"s estate will be distributed.

JUNE 2013 **Time allowed: 3 Hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

Jembe and Panga were sole traders manufacturing farm implements. On 31 March 2004, they amalgamated and traded as partners sharing profits and losses in the ratio of 3:2. One year later on 31 March 2005, they converted the partnership into a limited liability company called Shamba Ltd.

No. adjustments have been made to record the amalgamation and conversion but the balance sheets for the sole traders as at 31 March 2004 and the partnership as at 31 March 2005 were as follows:

	Sole Traders balance sheet as at 31 March 2004		Partnership balance sheet as at 31 March2005
	Jembe	Panga	
	Sh. „000"	Sh. „000"	Sh. „000"
Assets			
Freehold property	1,500	1,000	4,000
Plant and equipment	6,800	5,600	13,000
Fixtures and fittings	1,600	1,550	3,000
Inventory	1,800	350	3,350
Accounts receivable	1,900	1,000	6,420
Balance at bank	300	150	125
	13,900	9,560	29,895
Liabilities			
Accounts payable	(6,800)	(4,000)	(9,920)
Bank overdraft	-	-	(5,625)
	7,1000	5,650	14,350

Additional Information:

1. On 1 April 2004, the partners agreed to take up the assets and liabilities of the individual traders at book values except for freehold property, plant and equipment and fixtures and fittings which were to be revalued as follows:

	Jembe	Panga
	Sh. „000"	Sh. „000"
Freehold property	2,000	1,500
Plant and equipment	6,500	5,500
Fixtures and fittings	1,500	1,500

2. During the year ended 31 March 2005, Jembe made drawings of Sh. 2,390,000 while Panga drew Shs. 610,000.

3. The partnership was converted into a limited company on the following terms:

i) The freehold property and accounts receivable were revalued to Sh.6,000,000 and Sh.5,670,000 respectively.

ii) Jembe and Panga were to receive 15% unsecured debentures at par so as to provide each partner with income equivalent to a 6% return on capital employed based on capital balances as at 31 March 2005 (that is after accounting for the profit, drawings and revaluation in note (i) above).

iii) Shamba Ltd. Authorized share capital was made up of 150,000 ordinary shares of Sh.50 each. Out of which 130,000 shares were to be issued to the partners in their profit sharing ratio.

iv) Any balances in the partners" capital accounts were to be settled in cash.

Required:

a) A computation showing the value of debentures and ordinary shares to be issued to the partners. (12 marks)

b) Partners capital accounts as at 31 March 2005. (3 marks)

c) Balance sheet of Shamba Ltd. As at 31 March 2005 after completing the above transactions. (5 marks)

(Total: 20 marks)

QUESTION TWO

Lusiola Ltd. Acquired 90% of the ordinary shares of Kacheliba Ltd. On 1 April 2003 for 30 million when Kacheliba Ltd"s retained earnings were Sh.15 million.

The balance sheet of the two companies as at 31 March 2005 were as follows:

	Lusiola Ltd. Sh. „000"	Kacheliba Ltd. Sh. „000"
Non-current assets:		
Property, plant and equipment	26,400	16,200
Investment in Kacheliba Ltd.	30,000	
Other investments	1,000	6,000
	57,400	22,200
Current assets		
Inventory	9,500	4,000
Accounts receivable	7,200	1,500
Bank	300	
	17,000	5,500
Total assets	74,400	27,700
Equity and liabilities:		
Ordinary share capital (Sh.10 each)	10,000	5,000
Retained earnings	48,600	6,300
	58,600	11,300
Non-current liabilities		
12% debentures	4,000	6,000
Current liabilities		
Accounts payable	6,700	5,200
Taxation	4,100	700
Dividends	1,000	-
Overdraft	-	4,500
	11,800	10,400
Total equity and liabilities	74,400	27,700

Additional Information

1. The movement in Kacheliba Ltd."s earnings since acquisition was as follows:

	Sh. „000"
Balance as at 1 April 2003	15,000
Loss for the year ended 31 March 2004	(3,000)
Loss for the year ended 31 March 2005	(1,700)
Dividend paid in the year ended 31 March 2005	(1,400)
Balance as at 31 March 2005	(6,300)

2. Lusiola Ltd. Accounted for its share of Kacheliba Ltd."s dividend as a credit to income. The group policy on dividend is to credit group income with dividend paid out of post acquisition profit only.

3. On the date of acquisition, the fair values of Kacheliba Ltd."s assets were approximately equal to their book values except for
   i) Plant which had a net replacement value of sh.6 million in excess of its book value and an estimated remaining useful life for 5 years.
   ii) Investments with market values of sh.8 million.

4. There were no acquisitions or disposals of non-current assets since 1 April 2003.

5. The group policy in relation to goodwill arising from acquisition was to capitalise it and amortise it over 6 years. However, in line with International Financial Reporting

Standard (IFRS 3) goodwill was tested for impairment from 1 April 2004 to 31 Mach 2005 and found to be impaired by 16.67%. amortisation for the year ended 1 March 2004 had been provided.

6. On 27 March 2005, Lusiola Ltd. Sold goods to Kacheliba Ltd. For Sh.6,000. These goods had not been received by 31 March 2005 and were excluded from Kacheliba Ltd. Inventory. Lusiola Ltd. Charges goods at a standard mark-up on cost of 20%. Prior to this transaction, the agreed purchase ledger accounts balance of Kacheliba Ltd. With Lusiola Ltd. Was Sh.1,400,000.

Required
Group balance sheet as at 31 March 2005 **(20 marks)**

QUESTION THREE

Jamila traders has a head office in Nanyuki and an automation branch in Thika. The trial balances of head office and the branch as at 30 September 2004 were as follows:

	Head office		Thika branch	
	Sh.	Sh.	Sh.	Sh.
Buildings (at cost)	3,500,000			
Goods sent to branch		6,482,205		
Goods received from head office			6,387,330	
Accounts receivable	764,700		535,800	
Remittance from branch		7,548,750		
Remittances to head office			7,620,000	
Cash at bank	397,800		289,250	
Stock (at cost)	2,595,000			
Stock (at mark up)			1,552,500	
Sales		13,000,000		9,202,200
Capital (1 October 2003)		6,040,925		
Bank overdraft				250,000
Furniture and fittings	779,500		230,500	
Purchases	13,626,600			
Rent and rates	395,400		197,250	
Salaries and wages	851,700		487,500	
Current accounts	8,931,555			8,836,680
General expenses	1,887,750		1,258,950	
Accounts payable		1,239,000		270,200
Drawings	783,375			
Provision for unrealised profits		202,500		
	34,513,380	34,513,380	18,559,080	18,559,080

Additional Information:
1. Depreciation on furniture and fittings is to be provided at the rate of 10% per annum using the reducing balance method.
2. A bonus of 10% is payable to the staff at the head office and the branch. The bonus is based on net profits after charging these bonuses.
3. Goods sent to the branch in August 2004 and which had an invoice value of Sh.94,875 were stolen in transit. The insurance company agreed to meet the claim to the extent of only 85% of the cost of the goods.

4. Goods were invoiced to the branch at 15% above cost all sales were at a mark up of 331/3% above the cost to head office.
5. No shortages of stock were reported at the head office or the branch.

Required:

Prepare in columnar form for the head office. Thika branch and the combined business. The income statements for the year ended 30 September 2004. (12 marks)

QUESTION FOUR

Hamed and Hassan were in partnership trading under the name „Medsan Traders" and sharing profits and losses in the ratio of 1:3 respectively. On 31 December 2004, a winding up petition was lodged against the firm on which date the balances extracted from the books of the firm and the partners" separate estates were as follows:

	Current value Sh. „000"	Estimated value Sh. „000"
Assets		
Freehold property: Medsan Traders	11,000	12,000
Hamed	7,000	10,000
Plant and machinery: Medsan Traders	3,000	1,500
Furniture and fixtures: Medsan Traders	1,000	800
Hamed	1,500	1,200
Hassan	1,800	1,500
Inventory Medsan Traders	8,000	6,500
Accounts receivable: Medsan Traders	12,000	See (note 1)
Investments: Hamed	1.500	2,400
Hassan	2,000	1,900
Liabilities		
Mortgage on freehold property: Medsan Traders	6,000	
Hamed	5,000	
Bank overdraft: Medsan Traders	7,000	
Accounts payables: Medsan Traders	19,000	
Hamed	700	
Hassan	2,400	

Additional Information:

1. Of the accounts receivable. Sh.9 million is estimated to be good while Sh.1 million is estimated to be bad. 50% of the remaining debts are expected to be paid.
2. The preferential accounts payables for Medsan Traders, Hamed and Hassan were Sh.1,100,000. Sh.300,000 and Sh.500,000 respectively.
3. Medsan Traders bank overdraft was secured by a second mortgage on the partnership freehold property and by the deposit of Hamed"s investments together with his personal guarantee.

Required:

Using the format laid down in the Bankruptcy Act (Cap 53) and showing the legal position in relation to the double proof. Prepare

a) Statement of affairs as at 31 December 2004. (10 marks)

b) Deficiency or surplus accounts as at 31 December 2004 (10 marks)

(Total: 20 marks)

QUESTION FIVE

a) Briefly explain the following terms as used in trust and executorship accounting:

i)	Life tenant	(2 marks)
ii)	General legacy	(2 marks)
iii)	Demonstrative legacy	(2 marks)

b) The will of Apollo Matalanza, who died on 23 January 2004, contains the following provisions:

I leave my house and personal effects to my wife Joan Matalanza I leave Sh.9,000 in cash to my son Yacobo Matalanza
I leave all my investments to Chuo Kikuu
Any income earned on my investments prior to distribution, I leave to my priest Father Tony Christopher.
I leave the remainder of my estate to Raphael Juma

Additional Information:

1. The executor, Kamau Otieno, took an inventory of the assets of the testator and determined their fair value at the time of Apollo Matalanza"s death to be as follows:

	Shs.
Cash	40,000
Household an personal effects	310,000
Investments:	
Stocks	21,000
Bonds	44,000
Land (rental property)	65,000
Antiques	19,000
Dividend receivable	1,000
Interest receivable	2,000
Rent receivable	4,000
	512,000

2. The following Valid claims were made against the estate and paid by the executor:

	Sh.
Funeral expenses	17,000
Executor charges	9,000
Medical expenses	11,000
Debts	5,000

3. The following cash collections were received by the estate

	Sh.
Dividend	2,000
Interest	3,000
Rent	7,000
Sale of antiques	21,000

4. Prior to 25 June the date the charge and discharge statement was prepared, the executor had made complete distribution to both Joan Matalanza and Yacobo Matalanza.

Required:

A charge and discharge statements for the estate of Apollo Matalanza. (14 marks)

(Total: 20 marks)

DECEMBER 2013 **Time allowed: 3 Hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

Soma Ltd., publishing and printing company, extracted the following trial balance as at 31 October 2005:

	Sh. „000"	Sh. „000"
Property, plant and equipment: Cost	907,722	
Accumulated depreciation		108,000
Intangible assets	120,000	
Inventory	120,700	
Accounts receivable	168,120	
Provision for doubtful debts		620
Cash in hand	100	
Accounts payable		127,450
Bank overdraft		50,754
12½% debentures		200,000
Bank loan		270,000
Corporation tax		47,500
Share capital		60,000
Retained profits		119,046
Sales		1,574,500
Cost of sales	670,396	
Salaries and wages	238,720	
Distribution cost	86,560	
Administrative expenses	165,592	
Interest charges	79,960	
	2,555,870	2,557,870

Additional Information

1. Details of property, plant and equipment were as follows:

Values as at 1 November 2004	**Cost** Sh. „000"	**Accumulated depreciation** Sh. „000"
Freehold property (land Sh.350 million)	500,000	-
Plant and machinery	200,000	90,000
Office equipment	107,722	18,000
	807.722	108,000

The company had not been providing for depreciation on freehold property which comprised land and buildings. These were acquired on 1 November 1995, on which date the buildings were estimated to have a useful life of 50 years. The directors have now agreed to provide depreciation from the date of acquisition.

Depreciation on the other items of property, plant and equipment is to be provided for as follows:

Plant and machinery	- 15% on straight line basis
Office equipment	- 10% on reducing balance basis

A plant which cost Sh.100 million was acquired during the year.

2. The cost of inventory as at 31 October 2005 included items valued at Sh.9.6 million that were considered to be obsolete. The remaining inventory had a value of Sh.111.1 million.
3. Provision for doubtful debts at 5% of the accounts receivable is to be made.
4. The bank loan is repayable in ten equal annual installments of Sh.30 million.
5. The corporation tax amounting to Sh.47.5 million represents the estimated tax charge for the previous year. This liability was agreed with the tax authority at Sh.45 million. Current year tax is estimated to be Sh.85 million.
6. The details of salaries and wages were:

	Sh. '000'
Factory wages	125,510
Warehouse wages	32,716
Office salaries	79,780
Directors' remuneration	714
	238,720

The interest charges comprise:

	Sh. '000'
Bank overdraft interest	25,460
Bank loan interest	42,000
12½% debenture interest	12,500
	79,960

Intangible assets are to be amortised over 5 years. Amortisation and depreciation charges are to be treated as part of the cost of sales.

The directors propose to pay dividend amounting to Sh.21 million in respect of the year ended 31 October 2005.

Required:

a) Income statement for the year ended 31 October 2005. **(8 marks)**

b) Statement of changes in equity for the year ended 31 October 2005. (show the column for retained profits only). **(2 marks)**

c) Balance sheet as at 31 October 2005. Include relevant notes, using only the information provided, to ensure that the financial statements meet the requirements of International Financial Reporting Standards (IFRSs). **(12 marks)**

(Total: 22 marks)

QUESTION TWO

The consolidated financial statements for Hipa group for the year ended 30 September 2005 together with the comparative balance sheet for the year 30 September 204 are shown below:

Consolidated income statement for the year ended 30 September 2005:

	Sh. "million"	Sh. "million"
Sales		3,820
Cost of sales		(2,620)
Gross profit		1,200
Operating expenses	300	-
Finance costs	30	(330)
Profit before tax		870
Share of profit after tax of associate company		20
		890
Income tax expense		(270)
Profit for the period		620
Attributable to holding company		580
Attributable to minority interest		40
		620

Consolidated balance sheet as at 30 September:

	2005		2004	
Non-Current assets:	Sh. "million"	Sh. "million"	Sh. "million"	Sh. "million"
Property, plant and equipment		1,890		1,830
Intangible assets		650		300
Investment in associate company		95		80
		2,635		2,210
Current Assets:				
Inventory	1,420		940	
Accounts receivable	990		680	
Cash	70	2,480	-	1,620
		5,115		3,830
Equity and liabilities:				
Capital and reserves:				
Ordinary shares (Sh.10 each)		750		500
Reserves:				
Share premium	350		100	
Revaluation reserves	140		-	
Retained profits	1,570	2,060	1,380	1,480
Shareholders funds		2,810		1,980
Minority interest		135		100
Non-current liabilities:				
10% debentures	300		100	
Bank loan	260		300	
Deferred tax	310	870	140	540
Accounts payable	875		730	
Bank overdraft	-		115	
Accrued loan interest	15		5	
Proposed dividend	280		200	
Current tax	130	1,300	160	1,210
		5,115		3,830

Additional Information

1. The cost of sales includes depreciation of property, plant and equipment amounting to Sh.320 million and a loss on sale of plant of Sh.50 million.

2. Intangible assets comprise:

	2005 Sh. „million	2004 Sh. „million"
Goodwill	180	200
Others	470	100
	650	300

Included in the amount above were tangible assets acquired during the year ended 30 September 2005 for sh.500 million.

3. During the year ended 30 September 2005, the holding company acquired a new plant which cost Sh.250 million. The company also revalued its buildings by Sh.200 million.

4. On 1 October 2004, the holding company made a bonus issue of 1 share for every 10 shares held. The issue was financed through the revaluation reserve.

5. The detailed analysis of the retained profits was as follows:

	2005 Sh. „million	2004 Sh. „million"
Balance brought forward	1,380	1,200
Profit for the year	580	480
	1,960	1,680
Transfer from revaluation reserves	10	-
Dividend paid and proposed	(400)	(300)
Balance carried forward	1,570	1,380

Required:
Group cash flow statement for the year ended 30 September 2005, using the indirect method in conformity with International Accounting Standard (IAS)7. **(20 marks)**

QUESTION THREE

Beta East Africa Ltd. manufactures tubeless tyres at its head office plant located in Nairobi. It operates an overseas outlet at Kampala which maintains its own books of account.

The tyres are transferred to the branch at head office cost plus 25% mark-up. All sales are at a uniform margin of 50%.

The trial balances extracted from the books o both the head office and the Kampala branch as at 30 June 2005 were as follows:

	Head office		Kampala branch	
	Ksh. „000"	Ksh. „000"	Ush. „000"	Ush. „000"
Cash at bank	6,000		130,000	
Accounts receivable	45,000		260,000	
Inventory – 30 June 2005	40,000		80,000	
Plant and equipment – net book value	150,000			
Accounts payable		44,000		65,000
Share capital		192,000		
Motor vehicles – net book value	50,000			
Branch and head office current accounts	15,000			95,000
Sales		390,000		1,600,000
Cost of goods sold	280,000		930,000	
Operating expenses	70,000		360,000	
Goods sent to branch		30,000		
	656,000	656,000	1,760,000	1,760,000

Additional Information

1. Goods sent to Kampala branch by the head office which had cost the head office Ksh.80,000 were received by the branch on 15 July 2005. Included in the closing stock of Kampala branch were goods received from head office valued at Ush.23,600,000. The balance of the inventory at the Kampala branch were purchased locally in Uganda when the exchange rate was Ush.12 to Ksh.1.

2. A customer of the head office whose operations are situated in Kampala, made a settlement of Ush.420,000,000 to Kampala branch on 15 June 2005. This transaction was properly recorded by the Kampala branch but the head office had not been notified by the time the trial balance was extracted on 30 June 2005.

3. Depreciation is to be provided on plant and motor vehicles using the reducing balance method at 10% and 20% respectively per annum.

4. The head office expenses include Ksh.3,000,000 that related to Kampala branch. The head office allocates 1/3 of the depreciation expenses on plant and equipment to the branch.

5. The rates of exchange prevailing on various dated were:

Date	Rate
1 July 2004	9 Ush./Ksh.
15 June 2005	12 Ush./Ksh.
30 June 2005	13 Ush./Ksh.

Average rate for the year was 10 Ush./1Ksh. Goods transferred to Kampala branch were translated at the rate of 10 Ush./1Ksh.

Required:

a) Branch trial balance in Kenya shillings after the necessary adjustments. (5 marks)

b) Trading profit and loss account (in Kenya shillings) for the head office, branch and the combined business, in columnar format, for the year ended 30 June 2005. (10 marks)

c) Combined balance sheet (in Kenya Shillings) as at 30 June 2005. (5 marks)
(Total: 20 marks)

QUESTION FOUR

Kuni and Moto were partners in a business of logging and saw milling sharing profits and losses equally. The partnership balance sheet as at 31 December 2004 was as follows:

	Sh. „000"	Sh. „000"
Non-current assets:		
Land and building (at cost)		93,250
Furniture (at cost less accumulated depreciation)		2,500
		95,750
Current assets		
Cash in hand		250
Accounts receivable		
Saw milling	32,000	
Logging	54,000	86,000
Inventory		
Saw milling	115,000	
Logging	56,250	171,250
		257,500
Total assets		353,250
Capital and liabilities		
Capital accounts: Kuni		131,500
Moto		81,000
		212,500
Non- current liability:		
Loan		6,000
Current liabilities		
Bank overdraft		44,750
Creditors:		
Saw milling	77,000	
Logging	13,000	90,000
		134,750
Total capital and liabilities		353,250

Additional Information

1. The partners agreed that effective from 1 January 2005, the business would be taken over by two separate limited companies, Kuni Ltd. And Moto Ltd. Took over the saw milling business and Moto Ltd. Took over the logging business.

2. The providers of the loan agreed to accept 10% debentures in the new companies; Sh.3,600,000 being applicable to Kuni Ltd. And Sh.2,400,000 to Moto Ltd.

3. Kuni Ltd. took over the land and buildings, furniture, cash and bank overdraft. The assets and the liabilities were transferred at book values and the partners were paid Sh.25,000,000 being goodwill for the saw milling business and Sh.20,000,000 for the logging business

4. On 1 January 2005, the purchase consideration was satisfied by the allotment of fully paid equity shares of Sh.10 each in the respective companies as shown below:

   - Kuni – 11,875,000 shares in Kuni Ltd. and the balance in Moto Ltd.
   - Moto – 7,960,000 shares in Moto Ltd. and the balance in Kuni Ltd.

5. Kuni Ltd. Also raised a 12% debenture of Sh.50,000,000 on 1 January 2005 and paid-off the bank overdraft. The expenses incurred in raising the debenture amounted to Sh.1,750,000.

6. Kuni Ltd. And Moto Ltd. Also issued 500,000 and 750,000 full paid ordinary shares of Sh.10 each respectively to B Ltd. And C Ltd. on 1 January 2005.

7. The formation expenses were paid by the respective companies as follows: Kuni Ltd. Sh.3,250,000 and Moto Ltd. Sh.2,000,000.

Required:

a) Prepare business purchase accounts, partners" capital accounts, vendor account and bank accounts to record the above transactions. (12 marks)

b) Opening balance sheet of Kuni Ltd. And Moto Ltd. (8 marks)

(Total: 20 marks)

QUESTION FIVE

a) With reference in International accounting Standard (IAS) 19 on employees benefits:

   i) Differentiate between the terms "defined contribution plans" and "defined benefit plans". (3 marks)

   ii) Outline the two circumstances under which an enterprise should recognize termination benefits as a liability and an expense. (3 marks)

b) Treasure Motors Ltd. Is a dealer in new and used motor vehicles. In June 1993, the company registered a retirement benefits scheme for its 10 employees under the name "Treasure Motors Retirement Benefits Scheme".

   The trustees of the scheme extracted the following trial balance as at 30 June 2005.

JUNE 2014 **Time allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

The draft balance sheets of Boulder Limited, Rock Limited and Stone Limited as at 31 March 2006 were as follows:

	Boulder Limited	Rock Limited	Stone Limited
Non current assets:	**Sh. 'million'**	**Sh. 'million**	**Sh. 'million**
Property, plant and equipment	1,280	920	700
Investment in Rock Limited (valuation)	900	-	-
Investment in Stone Limited (Cost)	-	750	-
	2,180	1,670	700
Current assets:			
Inventories	420	410	240
Trade receivables	680	540	390
Cash atr bank	80	90	70
	1,180	1,040	700
Total assets	3,360	2,710	1,400
Equity and liabilities:			
Ordinary share capital of Sh.10 each	600	500	500
Revaluation reserves	60	260	-
Retained earnings	1,970	1,300	480
	2,630	2,060	980
Current liabilities:			
Trade payables	390	380	210
Current tax	40	20	10
Proposed dividend	300	250	200
	730	650	420
Total equity and liabilities	3,360	2,710	1,400

Additional information:

1 Boulder Limited purchased 30 million ordinary shares in Rock Limited on 1 April 2000, when the balance of retained earnings in Rock Limited was Sh. 800 million and the fair values of the new assets of Rock Limited were the same as the book values. The revaluation reserves in Rock Limited arose from the revaluation of assets carried out in the year ended 31 March 206. The revaluation

reserves in Boulder Limited were due to the revaluation of the investments in Rock Limited was fully impaired.

2 Rock limited acquired 30 million ordinary shares in Stone Limited on 30 September 2005. The fair values of the as assets of Stone Limited as at 30 September 2005 were as follows:

Asset	**Excess of fair value over book value sh. 'million'**
Plant and machinery	60
Patents and copyrights (not carried in books)	10
Inventory	20

The group depreciates plant and machinery at 10% per annum while intangible assets are amortised at 20% per annum (proportionate charge is used as necessary). Only 20% of the inventory held by stone Limited as at 30 September 2005 was still in stock as at 31 March 2006.

3 As at 31 March 2006, Boulder Limited and Rock Limited owed Stone Limited Sh. 36 million and Sh. 32 million respectively as a result of inter-company trading. Stone Limited made a profit after tax of Sh. 240 million in the year ended 31 March 2006.

4 Boulder Limited and Rock Limited had nor accounted for dividend receivable. All the dividend were proposed before 31 March 2006.

5 The directors of Boulder Limited consider the goodwill arising on acquisition of Stone Limited to be impaired by 1/6 of the initial value.

Required:

Group balance sheet as at 31 March 2006 in accordance with the relevant International Financial Reporting Standards (IFRSs)
(25 Marks)

QUESTION TWO

Jipcho, Kiptum and Limo were partners in JKL Enterprises. The partnership manufactured items of equipment which were hired out for outdoor activities. They shared profit and losses equally after providing for interest on their capital balances, at the beginning of the year, at the rate if 5% per annum.

The trial balance extracted from the partnership's books of account as at December 2005 was as follows:

	Sh.'000'	Sh.'000'
Non current assets	980	
Joint life assurance policies	300	
Cash ns cash equivalents		600
Stock of raw materials	970	
Accounts payable		770
Accounts receivable	400	
Capital accounts: Jipcho	520	
Kiptum	260	
Limo	240	
Joint life assurance fund		300
Customer deposits		820
Work-in-progress	860	
	3,510	3,510

Additional information

1 Due to some disagreement on the running of the firm, the partners decided to dissolve the partnership on 31 March 2006 after the following events had taken place.

	Sh.
Credit purchases of raw materials	202,500
Raw materials used in production	357,500
Direct wages paid	780,000
Payment to suppliers of raw materials	450,000
Credit sales of finished goods	2,800,000
Cash received from credit customers	2,250,000
Payment for general expenses	1,596,500
Cash drawings: Jipcho	260,000
Kiptum	150,000
Limo	140,000

2 Joint life assurance policies premium amounting to Sh. 60,000 was on 15 February 2006. The policies covered the lives of the three partners.

3 Customers were required to pay a deposit for special orders. As at 31 March 2006, all goods relating to special orders had been supplied by the partners.

4 Work-in-progress as at 31 March was valued at Sh. 457,000."

5 The partnership ceased operations on31 March 2006 with Jipcho taking over a motor vehicle at a valuation of Sh. 106,000. The other assets were sold and realised on piecemeal basis. Any cash available was distributed immediately.

The assets were realised as follows:

Date	Asset	Amount(Sh.)
31 March 2006	Joint life assurance policies	450,000
15 April 2006	Accounts receivable (part)	280,000
15 April 2006	Raw materials (part)	850,000
30 April 2006	Accounts receivable	585,000
30 April 2006	Raw materials and work -in-progress	1,207,000
15 March 2006	Non-current assets	1,050,000

Required:

(a) Statement of distribution of cash received. (6 marks)

(b) Partner's capital accounts showing balances as at 31 March 2006 and 15 May 2006. (10 marks)

(c) Realisation account. (2 marks)

(d) Bank account. (2 marks)

(Total: 20 Marks)

QUESTION THREE

Nairomat Supermarket Ltd. has a head office in Nairobi and several branches in Kenya. All goods are sent to the branches at selling price, which is fixed at 25% profit margin.

The details relating to Mombasa and Kisumu braches were as follows:

	Mombasa branch Sh.'000'(selling price)	**Kisumu branch Sh.'000'(selling price)**
Branch inventory (1 April 2005)	3,620	5,430
Branch debtors (1 April 2005)	370	555
Cash sales	8,654	12,981
Cash from credit customers	306	459
Returns from customers to the branch	88	132
Returns from customers direct to head office	24	36
Transfer to other branches	400	600
Goods sent by head office	8,240	12,360
Returns by branch to head office	144	216

Additional information:

1 Goods sent to Mombasa and Kisumu branches with a selling price of sh.120,000 and 180,000 respectively were lost while in transit to the branches. The insurance compensation received in respect of the losses was sh. 150,000.

2 The value of goods marked down to boost sales at the branches were as follows:

	Value at selling price	Marked down to	Balance in stock at marked down values (31 March 2006)
	Sh. '000'	Sh.'000'	Sh.'000'
Mombasa branch	200	168	84
Kisumu branch	300	252	126

3 The debtor balances and bad debts written off were as follows:

	Mombasa branch	Kisumu branch
	Sh.'000'	Sh.'000'
Debtor balances as at 31 March 2006	378	567
Bad debts written off during the year ended 31 March 2006	64	96

(a) Branch stock accounts. (7 Marks)

Branch mark up accounts. (7 Marks)

Branch debtors accounts (2 Marks)

Goods sent to branch accounts (2 Marks)

Lost stock accounts (2 Marks)

(Total: 20 Marks)

QUESTION FOUR

Peter Munuve filed his own petition in bankruptcy and the receiving orders were issued by the court on 31 March 2006.

The balances extracted from his books of account as at 31 March 2006 were as follows:

Assets	Sh.'000'	Liabilities	Sh.'000'
Free hold land	1,250	Loan from bank	1,000
Furniture and fittings	710	Loans from a SACCO	500
Motor vehicle	290	Mortgage on freehold land	1,000
Stock	1,200	Sundry creditors	2,550
Sundry debtors	1,520	Bank overdraft	1,100
Bank balance	20		
Drawings	560		
Total assets	5,550	Total liabilities	6,150

Additional information:

1 The official receiver appointed by the court has established the realisable values of the bankrupt's assets to be as follows:

		Sh.'000'
Freehold land		1,800
Furniture and fittings		500
Motor vehicle		140
Stock		800
Sundry debtors: Good		1,000
	Doubtful-of which Sh. 300,000 is estimated s realisable	400
	Bad	120
Private assets debtors other than personnal effects		28

2 Peter Munuve's private obligations amounted to Sh. 12,000.

3 The interest due on the mortgage amounting to Sh. 200,000 had not been recorded s at 31 March 2006.

4 The loan from bank and bank overdrafts were secured by a floating charge on assets and no interest was outstanding on 31 March 2006.

5 Sundry creditors as at 31 March 2006 comprise:

	Sh.'000'
- Assessed income taxes (2003-Sh.100,000, 2004-Sh.85,000 and 2005-Sh.120,000)	305
- Rent due to Government (Sh.50,000 per annum)	300
- Nairobi City Council rates for the year ended 31 December 2004.	20
- 5 months wages due to 5 employees at Sh. 5,000 per employee	125
- 3 months salary due to Munuve's uncle.	24
- Employees NSSF contributions for 36 months at Sh. 12,000 per annum	36
- Loan from John Kopesha for purchase of trading stock.	100

6 The loan from John Kopesha attracted interest of 5% per annum plus 10% interest based on the net profit made by Peter Munuve. The unrecorded interest due as at 31 March 2006 was Sh. 7,500.

7 During the year ended 31March 2006, Peter Munuve made business losses of Sh.830,000.

Required:

(a) A detailed statement showing the order of priority in which the sundry creditors would be paid. (6 Marks)

(b) Statement of affairs as at 31 March 2006. (8 Marks)

(c) Deficiency accounts as at 31 March 2006. (6 Marks)

(Total: 20 marks)

QUESTION FIVE

(a) State the fundamental requirements of a valid oral will (3 Marks)

(b) Briefly explain the various types of legacies that may be bequeathed by way of a will. (4 Marks)

(c) Ambrose Shamalla, a windower, died instant on 1 January 2006. He is survived by his two sons Kadenge and Muramba and a daughter Anunda. His other daughter, Nasimiyu predeceased him. Nasimiyu is survived by a son, Misati and a daughter Nafula.

During his lifetime Ambrose Shamala had advanced his two sons Sh.500,000 each to enable then commence and run a hardware business. Ambrose Shamala has also advanced Sh.400,000 to Nafula to purchase equipment for use in her hair salon business.

The net estate of Ambrose Shamalla after payment of all the expenses and liabilities on 31 May 2006 was
Sh. 9,000,000.

Required:
A distribution statement showing how the net estate of Ambrose Shamala would be shared out. (6 Marks)

(Total: 15 marks)

DECEMBER 2014 **Time allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

HB ltd has been experiencing dwindling sales in its business operations due to competition from other agents dealing in telecommunication equipment. On 1 January 2006, HB Ltd. Decided to diversify its operations to the information technology (IT) industry by acquiring SL Ltd, a company dealing in the manufacture of IT equipment and software design.

The summarised finacial statements of HB Ltd. And SL Ltd. Were as follows:

Income statements for the year ended 30 September 2006:

		HB Ltd.	SL Ltd
		Sh. '000'	**Sh. '000'**
Revenue		60,000	24,000
Cost of sales		(42,000)	(20,000)
Gross profit		18,000	4,000
Other income:	Interest received	75	-
	Dividend received	400	-
		18,475	4,000
Expenses:			
Distribution costs		(3,500)	(100)
Administrative expenses		(2,500)	(100)
Finance costs		-	(200)
Profit before tax		12,475	3,600
Income tax expense		(3,000)	(600)
Profit after tax		9,475	3,000

Balance sheets as at 30th September 2006:

	HB Ltd.	SL Ltd
	Sh. '000'	Sh. '000'
Non-current assets:		
Property, plant and equipment	19,320	8,000
Investments	11,280	-
	33,800	8,000
Current assets:		
Inventories	5,000	3,000
Accounts receivable	4,200	3,400
Cash at bank	5,800	1,600
	15,000	8,000
Total assets	45,600	16,000
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of sh.10 each	10,000	2,000
Retained earnings	25,600	8,400
	35,600	10,400
Non-current liability:		
10% debentures	-	2000
Current liabilities:		
Accounts payable	7,500	3,200
Current assets	2,500	400
	10,000	3,600
Total equity and liabilities	45,600	16,000

Additional information:

1 HB Ltd.acquired 80% of the ordinary share capital of SL Ltd .for sh.10,280,000 and also acquired half of the 10% debentures in the company.

2 The fair value of the assets of SL Ltd. at the date of acquisition were the same as their book values except for plant whose fair value more by sh.3.2 million. As at 1 January 2006, the plant had a remaining useful life of four years. SL Ltd. depreciates plant on straight line basis on cost.

3 During the post acquisition period, HB Ltd. sold goods to SL Ltd .for sh.12million. These goods had cost HB Ltd. sh.9 million. Subsequently, SL Ltd .sold some of the goods purchased from HB Ltd. at sh.10 million for sh.15 million.

4 On 30 June 2006,HB Ltd. and SL Ltd. paid dividends of sh.1,000,000 and sh.500,000 respectively.

5 Included in the accounts receivable and payable is sh.750,000 being the amount SL Ltd. owed HB Ltd.

6 Goodwill is considered to be impaired by 25% as at September 2006. Goodwill is classified as an administrative expense by the group companies.

Required:

(a) Group income statement for the year ended 30 September 2006. (10 marks)

(b) Group balance sheet as at 30 September 2006. (10 marks)

Total 20 marks)

QUESTION TWO

Bara Ltd, a company quoted on the stock exchange ,extracted the following trial balance as at 31 October 2006.

	Sh. '000'	Sh. '000'
Land and buildings at cost	270,000	
Plant at cost	156,000	
Purchases	78,200	
Distribution	10,000	
Administrative expenses	5,500	
Loan interest paid	2,000	
Leased plant rental	22,000	
Dividend paid	15,000	
Inventories (1'November 2005)	37,800	
Accounts receivable	53,200	
Investments (long-term)	90,000	
Revenue		278,400
Income from investment		4,500
Ordinary shares of sh.10 each		150,000
Retained earnings		119,500
8% debentures		50,000
Accumulated depreciation: Buildings		60,000
Plant		26,000
Accounts payable		33,400
Differed payable		12,500
Balance at bank		5,400
	739,700	739,700

Additional information:

1 The land and buildings were purchased on 1 November 1990. The cost of land was sh.70 million or buildings have been purchased by Bara Ltd. since then. However, on 1 November 2005,the land and buildings were professionally valued at sh.80 million respectively. The estimated useful life buildings before the revaluation was 50 years. However, the revaluation did not change the useful life of the buildings. Plant is depreciated at 15% per annum using the reducing balance method. Depreciation expense is to be included under cost of sales in the income statement.

2 On 1 November 2005, Bara Ltd. entered into a five year lease agreement for an item of plant. This item had an estimated useful life of five years. The annual rental which was payable in advance with effect from 1 November 2005 was sh.22 million.

The fair value of the plant is sh.92 million and the implicit interest rate is 10% per annum.

3 The 8% debentures were issued on 1 January 2006 and interest is payable six months in arrears.

4 The income tax for the yaer to 31 October 2006 estimated at sh.28.3 million. The differed tax provision as at 31 October 2006 was increased to sh.14.1 million.

5 Inventories were valued at sh.43.2 million as at 31 October 2006.

Required:

Prepare in accordance with International Financial Reporting Standards (IFRSs)

(a) Income statement for the year ended 31 October 2006 (8 marks)

(b) Statement of changes in equity for the year ended 31 October 2006 (4 marks)

(c) Balance sheet as at 31 October 2006 (8 marks)

(Total: 20 marks)

NOTE: Do not prepare notes to the accounts

QUESTION THREE

(a) The International Financial Reporting Standards (IFRSs) Framework recognizes relevance and reliability as some of the qualitative characteristics of financial statements.

Required:

(i) Distinguish between relevance and reliability in the context of IFRSs Framework. (3 marks)

(ii) List and briefly explain attributes of reliable financial statements as promulgated in the IFRSs Framework (5 marks)

(b) A and B Advocates and M and N Advocates were practicing firms of advocates. On 1 January 2006, they agreed to amalgamate the partnerships into one firm, Able and Mine Advocates. The accounts of the separate partnerships have been prepared annually to 31 December.

The agreed profit and loss sharing ratios in the old and the new firms were as follows:

	A	B	M	N
Old firms	3	2	2	1
New firms	4	3	2	1

The balance sheets extracts of the partnerships as at 31 December 2005 were as follows:

	A and B Advocates Sh. '000'	**M and N Advocates** Sh. '000'
Non-current assets:		
Motor vehicles	10,000	9,000
Office equipment	4,000	3,000
	4,000	12,000
Goodwill	6,000	5,000
Current assets:		
Investments	7,500	-
Accounts receivable	20,000	13,000
Cash	2,500	-
	30,000	13,000
Total assets	<u>50,000</u>	<u>30,000</u>

Capital and liabilities:		
Capital accounts:		
A	25,000	-
B	15,000	-
M	-	15,000
N	-	10,000
	40,000	25,000
Current liabilities:		
Client account	5,000	-
Accounts payable	5,000	3,500
Bank overdraft	-	1,500
	10,000	5,000
Total capital and liabilities	50,000	30,000

Additional information:

1 Provision or bad and doubtful debts was to be made at 5% of the accounts receivable.

2 Able and Mine Advocates was to take over the assets of the partnership at the following agreed values:

	A and B Advocates	M and N Advocates
	Sh. '000'	Sh. '000'
Motor vehicles	9,000	8,000
Office equipment	3,500	3,000
Goodwill	7,500	5,000

3 The investments of A and B Advocates were sold on 1 January 2006 for sh.8,000,000.

4 The capital for Able and Mine Advocates amounted to sh.75,000,000 which was contributed by the partners in their profit sharing ratios, any adjustments being made in cash.

5 The client account and the accounts payable were settled immediately on amalgamation.

Required:

Prepare the following accounts to record the above transactions:

(i) Realisation accounts 4 marks)
(ii) Capital accounts (3 marks)
(iii) Cash accounts (3 marks)
(iv) Able and Mine Advocates account 2 marks**)**

(Total: 20 marks)

QUESTION FOUR

Fast Lane Ltd. acquired a competitor's branch in Kitui on 1 November 2005 for sh.1.5 million. The fair value of the net assets acquired was sh.1,000,000 which comprised property, plant and equipment and inventories at sh.900,000 and sh.100,000 respectively.

Kitui branch maintains its own books of account except for fixed assets ledger which is maintained by the head office.

Extracts of the trial balances as at 31 October 2006 are set out below:

	Head office		Kitui Branch	
	sh.'000'	sh.'000'	sh.'000'	sh.'000'
Ordinary share capital		330		
Retained earnings (1 November 2005)		3,600		
Property, plant and equipment	950			
Provision for depreciation		250		
Balance at bank		220		190
Inventories (1 November 2005)	1,420			
Accounts payable		182		
Investment in branch	1,500			165
Purchases	6,380		810	
Sales		5,406		3,180
Goods sent to branch		2,280		
Goods received from head office				2,160
Branch/head office current accounts	440			180
Operating expenses	1,138		365	
	12,048	12,048	3,525	3,525

Additional information:

1 The only entry made in the books of Fast Lane Ltd. in respect of the acquisition of the Kitui branch was the consideration paid.

2 The head office and branch sold goods to customers at a uniform mark-up of $32^1/_2$%.

3 The branch purchases perishable goods from the local community. The branch sold all perishable goods purchased locally during the year.

4 Goods are sent to the branch from the head office at a mark-up of 20%. Goods which cost the head office sh.1,000,000 were sent to the branch on 28 October 2006. These goods were received by the branch on 5 November 2006.

5 Depreciation is provided on property, plant and equipment at the rate of 20% per annum using the reducing balance method.

6 The branch remitted sh.140,000 to the head office on 29 October 2006 which was received by the head office on 3 November 2006.

Required:

(a) Journal entries to complete recording of the acquisition of the Kitui branch in the books of the head office. (2 marks)

(b) Trading, profit and loss accounts for the head office ,branch and the combined business, in columnar format, for the year ended 31 October 2006. (12 marks)

(c) Combined balance sheet as at 31 October 2006. (6 marks)

QUESTION FIVE

Moses Waigwa died as a result of a motor accident on 5 September 2006. His estate at death after payment of debts, funeral and other expenses consisted of the following assets.

	Sh.
Freehold house	900,000
Furniture and other personal effects	120,000
Ornamental collection	12,000
12,000 ordinary shares in Kenya Company Ltd.	210,000
Sh.100,000 nominal 10% Treasury stock 2008	92,000
Amount due from motor insurance company	114,000
Debt due from paul	50,000
Cash in hand and balance a bank	262,000

Through his will executed several years earlier, Moses Waigwa forgave his brother-in-law, Paul, all debts at the date of his death and made the following bequests.

1 To my wife Grace, my freehold house, furniture and other personal effects not other wise bequeathed.

2 To my brother William, the sum of Sh. 100,000

3 To my good friend Peter Mwaro,the sum sh.20,000

4 To each of my sons Maina and Kamau,the sum of Sh. 2,000,000

5 To my daughter Ziporah, my holding of Sh. 100,000 nominal 101/4% Treasury stock 2008 and Sh. 40,000 to my nephew Richard payable out of my holding of 9% Treasury stock 2007.

6 To my niece Sarah, my holding of 3,000 shares(ordinary) in Kenya Company Ltd.

7 To my cousin Kenneth, my motor car.

8 To my grandson Jonathan, my ornamental collection

9 To my neighbour Peter Mwaro, the sum of Sh. 10,000.

10 The residue of my estate to trustees, to provide an income for my wife and thereafrer to my grandchildren in equal shares.

You further ascertain the following:

- William and Kamau both predeceased Moses Waigwa, but their respective children Richard and Jonathan both survived him.
- Peter Mwaro, a life long friend of Moses Waigwa, had purchased the house neighbouring that of Moses Waigwa and Grace shortly before the execution of the will.
- There is no such investment as101/4%. Treasury stock 2008. The date referred to in Moses Waigwa's will is believed to be a typing error not previously noticed.
- Moses Waigwa's had sold his entire holding of 9% Treasury stock 2007 in November 2005.
- Moses Waigwa's car was totally wrecked in the accident of 5 September 2006, the sum of Sh. 114,000 paid by the insurance company represents the agreed value of the motor vehicle at that date.
- In addition to Kamau's son, Jonathan, there were five other grandchildren living at the date of Moses Waigwa's death.
- The Kenya Company Ltd. Changed the par value or he shares from Sh. 10 to Sh. 5 Prior to the death of Moses Waigwa.

  However, this had no significant effect on the market price of the shares.

Required:

(a) A statement showing the distribution of Moses Waigwa's estate (10 marks) (Ignore all income and interest on legacies).

(b) Explain the treatment of the bequests to the following beneficiaries:

(I)	Peter Mwaro	(2 Marks)
(ii)	Zipporah	(2 Marks)
(iii)	Richard	(2 Marks)
(iv)	Sarah	(2 Marks)
(v)	Kenneth	(2 Marks)

(Total: 20 marks)

ANSWERS – PAST PAPERS

SUGGESTED SOLUTIONS TO PAST PAPER QUESTIONS

PILOT PAPER JULY 2008

QUESTION ONE

(a) **Shirika Jipya**
Income statement for the yaer ended 30 June 2000

	Sh.000	Sh.000
Turnover		179,100
Cost of sales (W1)		(143,023)
Gross profit		35,077
Other operating income: Profit on disposal	173	
Investment income	300	473
Expenses		35,550
Other expenses (W)	24556	
Finance cost	832	(25,388)
Profit before tax		10,162
Income tax expense		(4,200)
		5,962
Profit for the period		

WORKINGS

		Sh.000
1.	**Cost of sales**	
	Opening stock	25,073
	Purchases	141,450
		166,523
	Closing stock	(23,243)
		143,280
	Add:Depreciation on:	
	• Buildings	53
	• Plant	690
		144023
	Finance cost	
2.	Debenture interest (10% x 8,000)	800
	Paid	450
	Accrued	350
		800
	Add: Preference share dividend paid	32
		832
3.	**Other expenses**	
	Increased provision (bad debts)	30
	Audit fee	53
	Wages and salaries	24,450
	Bad debts	23
		24556

4.	Interim dividends	
	Ordinary share capital	430
	Preference share capital	32
		462
5	Income tax expense	
	Current years estimate	4,290
	Less previous years overprovison	(15)
	Transfer from deferred tax	(75)
		4,200

(b) **Shirika jipya**
Statement of changes in equity for the year ended 30 june 2000

	Ordinary share capital Sh."000"	Share Premium Sh."000"	Capital redemption reserve Sh."000"	Investment revaluation Sh."000"	Retained Profits Sh."000"	Total Sh."000"
Bal as at 1.7.99	15,375	3,150	-		21,600	40,125
	-	-	-		-	-
	15,375	3,150	-		21,600	40,125
Gain on inv.	-	-	-		-	-
revaluation	-			3225	-	-3225
	-	-	-		-	-
	-	-	-		-	-
	-	-	-		-	-
Purchase of shares	-	(37.5)	-		-	(37.5)
Transfer to CRR	-	-	750		(750)	-
Profit for year	-	-	-		5,962	5,962
Dividends:						
Interim (W4)	-	-	-		(430)	(430)
	-	-	-			-
	15,375	3,112.5	750	3225	26362	48844.5

Note: Under IAS 32 redeemable preference shares are treated as a non current liability. Therefore any dividends paid thereon are finance costs and it will not appear as aprt of shareholders funds.

		Sh.000
5.	Final dividends $\left(35x\dfrac{15,375}{25}\right)$	21,525
	Preference share capital (6% x 750 – 32)	13
		21,538
6.	Receivables = (34,979 – 120)	34,859
7.	Bank: As per TB	806
	Paid for redemption	(787.5)
		18.5

8.	Accruals	
	Wages	473
	VAT	681
	Interest	350
	Audit fee	53
		1,557
9.	Accrued tax	
	Estimated for year	4,290
	Overestimated	(15)
	Paid	(738)
		3,537

Deferred Tax A/c

	Sh.000		Sh.000
Profit & Loss	75		
C/d	1,005	Bal b/d	1,080
	1,080		1,080

(a) **Shirika Jipya**

Balance sheet as at 30 June 2000

	Sh.000	Sh.000
Non Current Assets		
Plant, property and equipment (Note 4)		23,498
Investments		6750
		30,248
Current Assets		
Inventory	23,243	
Receivables (W6)	34,859	
Bank (W7)	18.5	58,120.5
		88,368.5
Financed by		
Authorised share capital		37,500
1.5m ordinary shares @ Sh.29		750
75,000 preference shares @ Sh.10		38,250
Issued and Paid up		
Ordinary share capital		15,375
Capital redemption reserve	750	
Share premium	3,112.5	
Investment revaluation	3,225	7,087.5
Retained profits		26,382
Shareholders funds		48,844.5
Non Current Liabilities		
Loan stock	8,000	
Deferred tax	1,005	9,005
Current liabilities		
Creditors	25,425	
Accruals (W8)	1,557	
Accrued tax (W9)	4,537	
		30,519
		88368.5

Notes to the Financial Statements

1. The above financial statements have been prepared under the historical basis of accounting which is modified to accommodate revaluation of certain assets and they are in compliance with the applicable **IFRSs** and the Company"s Act..

2. The profit for the period has been arrived at after charging:

	Sh.000
Directors fe	122
Depreciation	743
Auditors remuneration	53
Staff costs (employee benefits)	24,328

3. The tax expense for the year is arrived at by applying the corporate rate of tax in Kenya of 30% to the adjusted profit for the year.

4. **Property, plant and Equipment**

	Land Sh."000"	Buildings Sh."000"	Plant Sh."000"	Total Sh."000"
Cost/valuation				
Bal b/d	848	28,200	4,350	33,398
Additions	-	4,050	750	4,800
Disposal	-	(1,500)	-	(1,500)
Bal c/d	848	30,750	5,10	46,698
Depreciation				
Bal b/d	-	13,214	398	13,612
Eliminated and disposed	-	(1,155)	-	(1,155)
Charge for year	-	690	53	743
Bal c/d	=	12,749	451	13,200
NBV c/a	848	18,001	4,649	23,498
NBV b/d	848	14,986	3,952	19,786

5. The 10% loan stock is secured against the plant.
6. The firm has signed a contract of Sh.8.775m for the construction of a warehouse for storage of goods.

QUESTION TWO

(a)

Kwa and its subsidiary co.
Consolidated balance sheet ast at 31 March 2000.

	Sh.000	Sh.000
NON CURRENT ASSETS		
Property, plant & equipment		470,000
(Less: Accumulated depreciation)		(90,000)
		380,000
Goodwill cost (31,050 – 6,210) (W2 & W3)		24,840
(6,210 – amortisation)		404,840
CURRENT ASSETS (288,900–1,000)		287,900
Total assets		692,740
EQUITY AND LIABILITIES		
Ordinary share capital (holding company)		300,000
General reserves (W8)		50,000
Retained earnings (W7)		66,100
Minority interest		107,640
Shareholders funds		457,640
NON CURRENT LIABILITIES		
Minority interest (W9)		
6% Debenture (20,000 – 5,000)		15,000
CURRENT LIABILITIES		
Trade payables	119,200	
Accrued interest	900	
Propsed dividends - Group	30,000	
- Minority interest	3,900	154,000
TOTAL EQUITY AND LIABILITIES		692,740

Workings

1. Ordinary share capital = $\frac{\textbf{Number of shares held x 100}}{\text{Total number of shares}}$

$\frac{7,500,000}{1,000,000} \times 100$

= 75%

Preference share capital = $\frac{6,000,000}{8,000,000} \times 100$

= 75%

Debenture capital = $\frac{\text{Nominal held}}{\text{Total nominal}} \times 100$

$\frac{5,000,000}{20,000,000} \times 100$

= 25%

2. **COST OF CONTROL ACCOUNT**

	Sh."000"		Sh."000"
Cost of investment		Share of equity	
Ordinary shares	165,000	Ordinary share capital	
Preference shares	60,000	[75% (100,000 + 20,000)]	90,000
		General reserve	
		[75% (40,000 – 20,000)]	15,000
		Retained Earnings	
		(75% x 28,000)	21,000
		Group Profit & Loss	
		(Preacquisition dividends)	
		Preference (75% x 5,600)	4,200
		Ordinary (75% x 5,000)	3,750
		Preference share capital	
		75% x 80,000	60,000
		Goodwill:Amortised	6210
		C/d	24840
	225,000		225,000

3. **GOODWILL AMORTISATION**

$$= \frac{31,050}{5} = 6,210$$

4. **INVESTMENT IN SUBSIDIARY DEBENTURES A/C**

	Sh."000"		Sh."000"
Cost of debenture	5,000	Share of nominal or face value	
		(25% x 20,000)	5,000
	5,000		5,000

5. **ANALYSIS OF POST ACQUISITION DIVIDENDS**

(a) **Ordinary dividends**

	Sh."000"		Sh."000"
Group profit & Loss			
(75% x 10,000)	7,500		
MI (dividends due)	2,500	Bal b/d Jomvu	10,000
	10,000		10,000

(b) **Preference dividends**

	Sh."000"		Sh."000"
Group Profit & loss			
(75% x 5,600)	4,200		
Due to MI		Bal b/d	
(25% x 5,600)	1,400	Jomvu Ltd	5,600
	5,600		5,600

6. TO RECOGNIZE DEBENTURE INTEREST DUE

ACCRUED DEBENTURE INTEREST

	Sh."000"		Sh."000"
Group Profit & loss			
(25% x 1,200)	300		
To consolidated balance sheet	900	Jomvu Ltd	1,200
	1,200		1,200

7. **GROUP RETAINED EARNINGS**

	Sh."000"		Sh."000"
To cost of control a/c		Bal b/d	
Pre-acquisition retained earnings	21,000	Kwa	98,500
Pre-acquisition dividends		Jomvu	44,400
Preference	4,200		
Ordinary	3,750	Share of post acquisition	
Goodwill amortisation	6,210	Preference (W5b)	4,200
Unrealised profit (20/120 x 6M)	1,000	Ordinary (W5a)	7,500
To MI a/c (25% x 44,400)	11,100		
To consolidated Balance sheet	107,640	Share of debenture interest	300
	154,900		154,900

8. **GROUP GENERAL RESERVE**

	Sh."000"		Sh."000"
Cost of control		Bal b/d	
(75% x 20,000)	15,000		
Minority interest		Kwa Ltd	50,000
(25% x 20,000)	5,000	Jomvu Ltd	
Consolidated balance sheet	50,000	(40,000 – 20,000)	20,000
	70,000		70,000

9. **MINORITY INTEREST ACCOUNT**

	Sh."000"		Sh."000"
To consolidated balance sheet	66,100	Ordinary share capital [25%(100 + 20)]	30,000
		General reserve	5,000
		Group retained earnings (25 x 441,400)	11,100
		Preference share capital (25 x 80,000)	20,000
	66,100		66,100

QUESTION THREE

Mwenyeji ltd
Translated trial balance as at 30.06.00

	Original Kove"000"	Trial balance Kove"000"	Rate	Translated Sh."000"	Trial balance Sh."000"
Freehold Property	63,000		1/7	9.000	
Debtors/creditors	35,680	1,560	1/8	4,460	195
Sales		432,000	1/9		48,000
Cost of sales:					
Depreciation	12,600		1/7	1,800	
Other	347,400		1/9	38,600	
Provision for depreciation		56,700	1/7		8,100
Administrative costs	18,000		1/9	2,000	
Closing stock	11,520		1/8	1,440	
Machinery	126,000		1/7	18,000	
Remittances	272,320		NA	29,990	
Cash at bank	79,200		1/8	9,900	
Selling and distribution cost	28,800		1/9	3,200	
Commission expenses	1,200		1/9	133	
Commission accrued		1,200	1/8		150
Head office current		504,260	NA		60,100
Exchange gain				-	1.978
	995,750	995,720		118,523	118,523

- Commission expense is computed as follows:

$$(432,000 - 36,000 - 18,000 - 28,800) \times \frac{5}{105} = 1,200$$

- The stock reported as opening stock is erroneous as the cost of sales is already given in the trial balance. It should be the closing inventory.

MWENYEJI LTD
PROFIT AND LOSS A/C FOR THE YEAR ENDED 30.06.00

	HEAD OFFICE		BRANCH		BRANCH		COMBINED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		104,000		432,000		48,000		152,000
Goods sent to branch		35,000		-		-		-
		139,000		432,000		48,000		152,000
Cost of sales		(59,000)		360,000		40,400		64,700
Gross profit		80,000		72,000		7,600		87,300
Exchange gain		-		-		1,978		1,978
		80,000		72,000		9,578		89,278
Administrative costs	15,200		18,000		2,000		17,200	
Selling and distribution	23,300		28,800		3,200		26,500	
Manager"s commission	-		1,200		133		133	
Provision for UP	300	38,800	-	48,000	-	5,333	-	43,833
Retained profit:: Year		41,200		24,000		4,245		45,445
B/f								2,000
C/f								47,445

MWENYEJI LTD
BALANCE SHEET AS AT 30.06.00

	HEAD OFFICE		BRANCH		BRANCH		COMBINED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non Current Assets								
Freehold Buildings		14,000		63,000		9,000		23,000
Machinery		4,500		69,300		9,900		14,400
		18,500		132,300		18,900		37,400
Branch current a/c	34,355							
Less UP	(300)	34,055		-		-		-
		52,555		132,300		18,900		37,400
Current Assets								
Stocks	28,900		11,520		1,440		30,040	
Debtors	8,900		35,680		4,460		13,360	
Bank	4,600		79,200		9,900		14,500	
Cash in transit	1,990		-		-		1,990	
Total current assets		44,390		126,400		15,800		59,890
		96945		258700		34700		97290
HO Current A/c				255940		34,355		
Share capital		40,000						40,000
Retained Profit		47,445						47,445
		87,445						87,445
Current Liabilities								
Creditors	9,500		1,560		195		9,695	
Accrued commission	-		1,200		150		150	
		9,500		2,760		345		9,845
Total equity and liabilities		96945		258700		34700		97290

HEAD OFFICE BOOKS
BRANCH CURRENT A/C

	Sh."000"		Sh."000"
		Remittance	28,000
Bal b/d	60,100	Cash in transit	1,990
Profit	4,245	Bal c/d	34,355
	64,345		64,345

BRANCH BOOKS
HEAD OFFICE CURRENT A/C

	Kove"000"	Sh."000"		Kove"000"	Sh."000"
Remittances	272,320	29,990	Bal b/d	504,260	60,100
Bal c/d	255,940	34,355	Profit	24,000	4,245
	528,260	64,345		528,260	64,345

Combined cost of sales (COS)

= HO Cos + Branch COS – Inter transfer + UP

= 59,000 + 40,400 – 35,000 + 300

= 64,700

QUESTION FOUR

(a)

RE: MALI MENGI
STATEMENT OF DISTRIBUTION AS AT 01.05.2000

	Sh.000	Sh.000
Assets		
Cash and bank a/c		4,250
Freehold house		3,250
Toyota Corolla		360
Nissan Sunny		220
TV and Music system		105
Debt due from Pungufu		40
Furniture and Personal effects		302
10,000 ordinary shares in Cement Ltd		12,000
4,500 ordinary shares in Soko Mjinga		370
Sh.800,000 10% Kenya Stock		165
Income received to date		147
Recoverable from Nyanjale (W1)		60
		10,469
Liabilities		
Mortgage and house	1,000	
Duty payable on house	130	
Mortgage interest - April (20% x 1000 x 1/12)	20	(1,150)
		9,319
Specific Legacies		
Wife Darajani: Furniture, TV & Music system	407	
Daughter Nyanjale: Freehold house	3,250	
Friend Shimba – Sh.800,000 10% Kenya stock	165	
Personal Assistance Sijapata: 5,000 shares(cmt)	600	
Niece Sinani: 4,000 ordinary shares in Cement	480	
Nephew Shaibu: Value of 1,000 shares(cmt)	120	
Friend Kisitu: Toyota Corolla	360	5,383
		3,937
General Legacies		
Son Kikwajuni	1,000	
Son Mnazini	1,000	
Friend Mulungu (100 + 50)	150	
Nephew Shaibu: Balance (200 – 120)	80	(2230)
Wife Daranjani		1,707

W1: Interest paid from 1st October 1999 to 31st March 2000

24% x 1,000 x 6/12	=	120
Interest from 1st October 1999 to 31st December 1999	=	60
		60

(b) The house is to be given to Nyanjale free of duties i.e mortgage interest and duty

Sh.1 million to Mwembeni will fail due to lapse.

The legacy to "som of sisters in law" will fail due to uncertainty of recipient.

The gift to cousin Nipa will fail due to ademption. It was not owned by the testator at the time of his death.

The legacy to Neleva will fail due to lapse. It is assumed that Ndeleva predeceased the testator because he was older.

The legacy to sister Malindi will fail due to lapse.

The demonstrative legacy will pass in 2 stages:
(i) Sh.12,000 when the balance of shares in Cement Ltd are sold
(ii) Sh.8,000 as a general legacy

The gift to Jirani will fail due to disclaimer

The gift to Dada will fail due to ademption.

QUESTION FIVE

(a) **ARGUMENTS AGAINST PUBLICATION OF SIMPLIFIED ACCOUNTS:**

- Accounting information is by its very nature complex. Usually companies operate in a complicated and rapidly changing environment. Therefore to ignore these complexities may present a misleading picture.
- Shareholders need to satisfy themselves that the directors have carried out their stewardship function satisfactorily. In that case, therefore, simplified accounts may not provide sufficient information for them to do so.
- Legislation and international accounting standards insist that financial statements should give a true and fair view. The publication of simplified accounts may be regarded as lowering of professional standards.
- There is a danger that simplified accounts may be used for purposes for which they were not intended e.g window dressing.
- Shareholders who find difficulty in understanding the full account may have reference to professional advisers to assist them.

(b) **NOTE**

Part (b) of the question is applicable to U.K not in Kenya.
However its solution is as follows:

(i) - List A consists of these persons who are the company members on the date of winding up. It is a list of present members of the company.

- List B consists of the persons who were members of the company during the 12 months period preceding the date of winding up i.e the past members

(ii) In case the assets of the company are not sufficient to pay the liabilities in the event of a company"s winding up, the liquidator can ask a list B contributory, to contribute towards the assets of the company if any of the following conditions is satisfied:

- The winding up of the company has commenced within one year of his or her being ceased to be a member.

- A debt or a liability of the company, which was incurred up to the date of his or her membership, is still outstanding.

- The shares are partly paid up and the present member is in a position to pay the calls made.

DECEMBER 2008

QUESTION ONE

BRANCH STOCK A/C

	NAIROBI Sh."000"	MOMBASA Sh."000"		NAIROBI Sh."000"	MOMBASA Sh."000"
Bal b/d	18,300	24,150	Debtors: sales	12,300	8,400
GSTB	82,770	1,201.5	Contra: stock transfer	405	900
Mark up	41,385	60,075	Profit & Loss: Stolen stock	44	-
Contra: Stock transfer	900	405	Mark up: Stolen stock	22	-
Profit & Loss Surplus		30	Mark up: Normal loss	54	-
			CB: Sales*	107,728	170,825
			Bal c/d	22,802	24,685
	143,355	204,810		143,355	204,810

BRANCH MARK UP A/C

	NAIROBI Sh."000"	MOMBASA Sh."000"		NAIROBI Sh."000"	MOMBASA Sh."000"
Conta: stock transfer	135	300	Bal b/d	6,100	8,050
BS: Stolen stock	22	-	Branch stock	41,385	60,075
BS: Normal loss	54	-	Contra: Stock transfer	300	135
Gross Profit: P & L*	39,973	59,732			
Bal C/d	7,601	8,228			
	47,785	68,260		47,785	68,260

BRANCH DEBTORS A/C

	NAIROBI Sh."000"	MOMBASA Sh."000"		NAIROBI Sh."000"	MOMBASA Sh."000"
Bal b/d	1,200	1,100	Branch Cash	12,100	8,525
BS" Sales	12,300	8,400	Bad debtors	-	75
			Bal c/d	1,400	900
	13,500	9,500		13,500	9,500

BRANCH CASH A/C

	NAIROBI Sh."000"	MOMBASA Sh."000"		NAIROBI Sh."000"	MOMBASA Sh."000"
Branch debtors	12,100	8,525	HO Bank: Remittance	110,820	168,000
BS: cash sales	107,728	170,825	Branch expenses	9,008	10,825
			P & L: stolen cash	-	525
	119,828	179,350		119,828	179,350

GSTB A/C

	Sh."000"		Sh."000"
Nairobi Branch	82,770		
Mombasa	120,150	Purchases	202,920
	202,820		202,920

CREDITORS A/C

	Sh."000"		Sh."000"
Cash book: HO	234,525	Bal b/d	42,550
Bal c/d	41,200	Purchases	233,175
	275,725		275,725

PURCHASES A/C / COST OF SALES

	Sh."000"		Sh."000"
Opening stock	11,750	GSTB	202,920
Purchases	233,175	Closing stock	42,005
	244,925		244,925

HEAD OFFICE BANK A/C

	Sh."000"		Sh."000"
Branch cash		Bal b/d	11,800
Nairobi	110,820	Expenses	19,540
Mombasa	168,000	Creditors	234,525
Bal c/d	45	Tax instalments	13,000
	278,865		278,865

TRENDSETTERS LTD
PROFIT & LOSS FOR THE YEAR ENDED 30.09.00

	NAIROBI BRANCH		MOMBASA BRANCH		COMBINED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Gross profit		39,973		59,732		99,705
Surplus: Mombasa		-		30		30
		39,975		59,762		99,735
Expenses						
Sundry expenses	9,008		10,825		19,833	
HO expenses	9,770		9,770		19,540	
Bad debts	-		75		75	
Stolen cash	-		525		525	
Stolen stock	44	(18,822)	-	(21,195)	44	40,017
Profit before tax		21,151		38,567		59,718
Tax @ 30%						(17,915.4
Profit after tax						)
Dividends (20% x 30,000)						41,802.6
Retained profit: Year						(6,000)
B/f						35,802.6
C/f						45,946
						81,748.6

TRENDSETTERS
BALANCE SHEET AS AT 30.09.00

	Sh.000	Sh.000
Non Current Assets		
Plant, Property and equipment		88,000
Current Assets		
Stock:		
Head office	42,005	
Nairobi Branch @ cost	15,201	
Mombasa Branch @ cost	16,457	
Debtors:	1,400	
Nairobi Branch	900	
Mombasa Branch		75,963
		163,963
Financed by:		
Issued and paid up share capital		30,000
3M ordinary shares @ Sh.10		81,748.6
Revenue Reserves: Profit & Loss		54
Suspense Account		
Current Liabilities	41,200	
Trade creditors	4,915.4	
Tax payable	6,000	
Proposed dividends	45	
Bank overdraft		52,160.4
TOTAL EQUITY AND LIABILITIES		163,963

Note: The **Opening Balance Sheet** does not balance by Sh. 54,000 as shown below.

	Shs. „000"	Shs. „000"
Non Current Assets		
Plant, Property and equipment		88,000
Current Assets		
Branch stocks at selling price	42,450	
Less mark up	(14,150)	
	23,800	
Head office stock at cost	11,750	
Debtors	2,300	
		42,350
		130,350
EQUITY AND LIABILITIES		
Ordinary share capital		30,000
Retained profits		45,946
Suspense		54
		76,000
Current liabilities		
Bank overdraft	11,800	
Trade creditors	(42,550)	54,350
Total equity and liabilities		130,350

QUESTION TWO

WORKINGS

1. **UPOS, UPCS, UPFA**

	B sells to A %	A Sells to B %	Trading Sh."000"	UPOs Sh."000"	UPCs Sh."000"	UPFA Sh."000"
Cost	75.36	100	7,008.48	406.94	542.59	2,000
Profit	24.64	20	2,291.52	133.06	177.41	400
Selling price	100	120	9,300	540	720	2,4000

ADDIS, BUNYALA & CHANIA
PROFIT & LOSS A/C FOR THE YEAR ENDED 30.11.00

	Addis Sh."000"	Bunyala Sh."000"	Chania Sh."000"	Group Sh."000"
Sales	84,000	66000	48,000	176,700
Cost of sales				
Opening stock	3,824	3,757	2,822	
Purchases	50,862	49,867	38,430	
Depreciation	-	240	-	
	54,686	53,864	41,252	
Less closing stock	(50,400)	(4,124)	(2,452)	
	(4,286)	(49,740)	(38,800)	(119,944.35)
Gross profit	33,600	16,260	9,200	56,77.65
Distribution costs	(13,440)	(8,050)	(9,600)	
Administration costs	(8,400)	(3,950)	(6,400)	(17,650)
Operating profit	11,760	4,260	(6,800)	10,415.65
Dividend income:	360	-	-	-
Bunyala ord.	1,000	-	-	-
Pref.	67.5	-	-	-
	13,187.5	4,260	6,800	10,415.65
Chania ord.	(2,140)	(1,050)	-	(3,190)
Profit before tax	(1,420)	(300)	2,040	(190)
Tax: Current	(3,560)	(1,350)	2,040	(3,380)
Deferred	9,627.5	2,910	(4,760)	7,035.65
	-	-	-	(486.87)
Profit after tax	9,627.5	2,910	7,522.52	7,522.52
Less MI				
Profit attributable to	-	900	-	-
ordinary shareholders	(3,000)	(500)	-	(3,000)
Dividends: Pref.	4,500)	(750)	(150)	(4,500)
Ord: Interim	2,127.5	760	(4,910)	22.52
Final	18,300	12,650	9,200	19,965.56
Retained profit: Year	20,427.5	13,410	4,290	19,988.08
B/f				
C/f				

RECONCILIATION OF RETAINED PROFIT

	B/f Sh."000"	Year Sh."000"	C/f Sh."000"
Addis:	18,300	2,127.5	20,247.5
UPFA	(400)	-	(400)
Goodwill amortised	(1,500)	(500)	(2,000)
	16,400	1,627.5	18,027.5
Bunyala	12,650	760	13,410
Less pre-acquisition	(8,100)	-	(8,100)
UPCS	-	(177.41)	(177.41)
UPOS	(133.06)	133.06	-
Depreciation adjustment	40	40	80
	445,694	755.65	5,212.59
Group share 80%	3,565.56	604.52	4,170.08
Chania	9,200	(4,910)	4,290
Less pre-acquisition	(9,200)	1,227.5	(7,972.5)
	-	(3,682.5)	(3,682.5)
Group share 60%	-	(2,209.5)	(2,209.5)
Total (A+B+C)	19,965.56	22.52	19,988.08

MINORITY INTEREST

	Bunyala	Chania
PAT	2,910	(4,760)
Pre-acquisition	-	1,190
Depreciation	40	-
adjustment	(177.41)	-
UPCS	133.06	-
UPOS	2,905.65	(3,570)

Pref 900 Ord 2005.65

Group 40% 360 MI 60% 540 Group 80% 1,604.52 MI 20% 401.13 Group 60% (2,042) MI 40% (1,428)

Total MI = 540 + 401.13 + (1,428) + 486.87

Group sales = 84,000 + 66,000 + (9/12 x 48,000) – 9,300 =

Holding Subsidiary Subsidiary Intergroup

Group cost of sales = 50,400 + 49,740 + (9/12 x 38,800) – 9,300 – 40 – 133.06 + 177.41

Addis Bunyala Chania Intergroup Dep"n adj. UPOS UPCS

QUESTION THREE

TRUST CASHBOOK

	Capital Sh"000"	Income Sh"000"		Capital Sh"000"	Income Sh"000"
1999			1999		
1.10 Balance b/d	1,410	120	1.12 Uchumi	3,450	
31.10 Rent		120			
1.11 Kenya stock	2,640				
31.12 Interest in		360			
Kenya stock 2000			2000		
31.04 Dividends					
(Media)		180	1.09	600	78
30.06 Interest in		360	Distribution	-	1,402
Kenya stock		660	1.09 Life	-	320
30.06 Dividends:			Tenants		
Uchumi			1.09 Executors		
	4,050	1,800		4,050	1,800

TRUST CAPITAL

1999	Sh"000"	1999	Sh"000"
1.11 Loss on disposal of		01.10 Balance b/d	
Kenya stock	300	2000	21,540
2000		31.01 Rev. gain	
31.01 Rev. loss Kenya stock	480	Milimani house	
31.01 Distribution A/C (1/2)	13,125	6000 Uchumi shares	
30.09 Balance C/D (1/2)	13,125	5000 Uchumi shares	4,200
		24000 Media shares	630
			300
			360
	27,030		27,030

INCOME ACCOUNT

1999	Sh"000"	1999	Sh"000"
		01.10 Balance b/d	120
		31.10 CB: Rent income. 31.12	120
		CB: Interest in Kenya stock	360
2000		2000	120
01.09 Life Tenants K	440	31.01 Life Tenants: Rent due	180
L	1,402	30.04 Dividend: Media	660
01.09 Distribution A/C	78	30.06 Dividend: Uchumi	360
N		30.06 Interest in Kenya stock	
	1,920		1,.920

DISTRIBUTION A/C

	Sh"000"		Sh"000"
01.09 House in Milimani	9,600	31.01 Trust capital	12,125
01.09 3900 share: Uchumi	2,925	01.09 Trust income	78
01.09 Capital cash	600		
01.09 Income cash	78		
	13,203		13,203

LIFE TENANTS ACCOUNT

2000	Sh."000"	Sh."000"		Sh."000"	Sh."000"
31.01 Income:	120	-	01.09 Income	440	1,402
Rent	-	1,402	A/c		
01.09 CB	320	-			
01.09 Executor A/c					
	440	1,402		440	1,402

EXECUTORS A/C (K)

	Sh		Sh
01.09 CB	320	01.09 Life Tenants	320

DISTRIBUTION OF INCOME

	4 Months to Jan 00		8 Months to Sept 00		Total	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
		240		480		720
Kenya stock interest:						
K	120		-		120	
L	120		480		60	
N	-	240	-	280	-	720
Media group dividends		60		120		180
K	30		-		30	
L	30		120		150	
N	-	60	-	120	-	180
39,000 shares in uchumi dividend:		78		156		234
K	39		-		39	
L	39		78		117	
N	-	78	78	156	78	234
71,000 shares Uchumi dividend		142		284		426
K	71		-		71	
L	71		284		335	
N	-	142	-	284	-	426
Rental income		240		-		240
K	120		-		120	
L	120		-		120	
N	-		480		-	

Total Income

K	=	120 + 30 + 39 + 71 + 120	=	440
L	=	600 + 150 + 117 + 355 + 120	=	1,402
N	=	78		

TRUST BALANCE SHEET AS AT 30.09.00

	Sh.	Sh.
Capital Investments		
71,000 shares in Uchumi @ 75/=	5,325	
24,000 shares in Media Group @ 100/=	2,400	
Sh.9m 12% Kenya Stock	5,400	13,125
Trust capital		13,125

QUESTION FOUR

(a) Partnership dissolution payment schedule

(i) **MAXIMUM POSSIBLE LOSS METHOD**

	TOTAL Sh."000"	NEWA Sh."000"	OMAE Sh."000"	PEKKA Sh."000"	QAMAR Sh."000"
		240		480	
Capital a/c	16,200	6,750	4,050	2,700	2,700
Current a/c	(1,700)	(250)	(1,350)	(300)	200
	14,500	6,500	2,700	2,400	2,900
Cash available (W1)	(1,172)				
Maximum possible loss	13,328	(5,331.2)	(3,998.4)	(2,665.6)	(1,332.8)
		1,168.8	(1,298.4)	(265.6)	1,567.2
Reallocation of losses		(1,251.2)	(1,298.4)	265.6	(312.8)
		(82.4)	-	-	1,254.4
Reallocation of NS Loss		82.4	-	-	(82.4)
Cash distributed	1,172	-	-	-	1,172
Capital balance	13,328	6,500	2,700	2,400	1,728
Cash available	(1,203)				
Maximum possible loss	12,123	(4,850)	(3,637.5)	(2,425)	(1,212.5)
		1,650	937.5	(25)	515.5
Realoccation of losses		(770)	937.5	25	(192.5)
Cash distributed	1,203	880	-	=	323
Capital balance	12,125	5,620	2,700	2,400	1,405
Cash available	(2,565)				
Maximum possible loss	9,560	(3,824)	(2,808)	(1,912)	(1,956)
		1,796	(168)	488	449
Reallocation of O"s loss		(96)	168	(48)	(24)
Cash distributed	2,565	1,700	-	440	425
Capital balance	9,560	3,920	2,700	1,960	980
Cash available	(3,560)				
	6,000	2,400	1,800	1,200	600
Cost distributed	3,560	1,520	900	760	380
Capital balance	6,000	2,400	1,800	1,200	600
Cash available	(6,400)				
Surplus (profit on realization)	400	160	120	80	40

REALISATION A/C

		Sh"000"		Sh"000"
Freehold property		6,000	15/5 CB	975
Plant and equipment		1,395	31/5 CB	1,192
Office equipment		2,030	30/6 CB	1,203
Vehicles		1,075	31/7 CB	2,565
Stock		3,405	31/8 CB	3,560
Debtors		1,590	31/10 CB	6,600
Dissolution expense		200		
Profit on realization:				
N	160			
O	120			
P	80			
Q	40	400		
		16,095		16,095

BANK A/C

	Sh"000"		Sh"000"
Realisation	975	Bal b/d	210
"	1,192	Creditors	785
"	1,203	Capitals: 1st Distribution	1,172
"	2,565	2nd "	2,565
"	3,560	3rd "	1,203
"	6,600	4th "	3,560
		5th "	6,400
	16,095		16,095

W1: **Cash available for distribution (May)**

	Sh.	Sh.
Total cash collected		2,167
Less:		
Creditors	785	
Overdraft	210	995
		1,172

In July the cash available for distribution is the amount collected less dissolution expenses 6600 – 200 = 640

CAPITAL A/CS

	N SH."000"	M SH."000"	O SH."000"	P SH."000"		N SH."000"	M SH."000"	O SH."000"	P SH."000"
Current	250	1,350	200	-	B/d	6,750	4,050	2,700	2,700
CB	-	-	-	1,172	Current	-	-	-	200
CB	880	-	-	323	A/c				
CB	1,700	-	440	429	Profit on	160	120	80	40
CB	1,520	900	760	380	realization				
CB	2,560	1,920	1,280	640					
	6,910	4,170	2,780	2,940		6,910	4,170	2,780	2,940

2. DISTRIBUTION STATEMENT USING THE SURPLUS CAPIAL METHOD

	Newa Sh."000"	Omae Sh."000"	Pekka Sh."000"	Qamar Sh."000"	Total Sh."000"
		240		480	
Capital A/c	6,750	4,050	2,700	2,700	16,200
Current a/c	(250)	(1,350)	(300)	200	(1,700)
	6,500	2,700	2,400	2,900	14,500
PSR	4	3	2	1	10
Capital/unit of profit	1,625	900	1,200	2,900	N/A
Capital in PSR	(3,600)	(2,700)	(1,800)	(900)	(9,000)
Surplus capital	2,900	-	600	2,000	5,500
Capital	700	-	600	2,000	5,500
PSR	4	-	2	1	7
Capital/unit of profit	725	-	300	2,000	N/A
Capital in PSR	(1,200)	-	600	300	2,100
	1,700	-	-	1,700	3,400
Capitals	1,700	-	-	1,700	3,400
PSR	4	-	-	1	5
Capital/Unit of profit	425	-	-	1,700	N/A
Capital in PSR	(1,700)	-	-	(425)	(2,125)
	-	-	-	1,275	1,275

Statement of Actual Distribution

	Newa Sh."000"	Omae Sh."000"	Pekka Sh."000"	Qamar Sh."000"	Total Sh."000"
31st May: Full realization	-	-	-	1,172	1,172
30th June: Part realization	-	-	-	103	103
Realisation balance	880	-	-	220	1,100
	880	-	-	323	1,203
	880	-	-	1,495	2,375
31st July: Part realization	820	-	-	205	1,025
Realization balance	880	-	440	220	1,540
	1,700	-	440	425	2,565
	2,580	-	440	1,920	4,920
31st Aug: Part realization	320	-	160	80	560
Realization balance	1,200	900	600	300	3,000
	1,520	900	760	380	3,560
	4,100	900	1,200	2,300	8,500
31st Oct: Full realization	2,560	1,920	1,280	640	6,400
	6,660	2,820	2,480	2,940	14,900

QUESTION FIVE

(a) The first meeting of creditors" voluntary winding up should be held on the same day when the members have passed a resolution to wind up the company or on the day after. In this meeting the creditors shall:

- Appoint amongst them a chairman
- Join the members to appoint a liquidator
- Join the members to appoint a committee of inspection of up to 5 people.

The directors must present to the members the statement of affairs and the list of creditors. The creditor may also terminate the liquidator earlier appointed by the members

- When the liquidation commenced the creditors shall meet one year after commencement to review the progress and attend to any pending matters. Such meetings are called by the liquidator.
- If the liquidation is not complete after one year the creditors shall meet after lapse of one year for all years in which the liquidation is incomplete.
- When the liquidation is complete the liquidator must call a final meeting and lay before the company and creditors the accounts of winding up.

XYZ Retirement benefit scheme
Statement of changes in net assets for the year ended 30 September 2000

		Sh.	Sh.
Contributions received from employers:			
	Normal		36,480
From members:	Normal	18,240	
	Additional voluntary	4,560	22,800
Transfers in:			59,280
Individual transfers in from other schemes			
Investment income			3,150
Sundry investment income			62,430
Benefits payable			
Pensions			47,400
Commutation of pensions & lump sum retirement benefits		(7,640)	
Payments to and on account of leavers:			
Individual transfers out to other schemes		(4,820)	
Changes in market value & investments		1,860	(14,320)
			95,510
Administrative expenses			(22,640)
			(2,840)
			70,030

XYZ Retirement benefit scheme
Statement of net assets as at 30 September 2000

	Shs.	Shs.
Investment assets		263,605
Fixed interest securities: Kenya Govt.		87,835
securities		19,990
Equity investments: Quoted		23,460
Unquoted		394,890
Cash and demand deposits		
Fixed assets		132,320
Immovable property		
Current assets	4,940	
Contributions due within 30 days		
Current liabilities	(320)	
Unpaid benefits	(240)	
Accrued expenses	(560)	
		4,380
Net current assets		531,590
		461,560
Accumulated fund as at 01.01.99		70,030
Net new money invested as per revenue A/C		

JUNE 2009

QUESTION ONE

	Apopo & Co Sh"000"	Guserwa & Co Sh"000"	Kandie Sh"000"		Apopo & Co Sh"000"	Guserwa & Co Sh"000"	Kandie Sh"000"
Office	450	420	150	New firm			
Equip.	1,500	1,065	240	Office Equip	300	420	150
Goodwill	1,800	1,050	240	Goodwill	1,800	1,050	150
WIP	5,250	2,625	225	WIP	1,800	1,050	240
Debtors				Debtors	4,200	2,100	180
				Capital:Apopo	300	-	-
				Cheloti	300	-	-
				Chuma	300	-	-
				Guserwa	-	140	-
				Kurgat	-	240	-
				Ochieng	-	60	-
				Kandie	-	-	135
	9,000	5,160	855		9,000	5,160	855

CAPITAL A/C (APOPO CHELOTI & COMPANY)

	Apopo Sh."000"	Cheloti Sh."000"	Chuma Sh."000"		Apopo Sh."000"	Cheloti Sh."000"	Chuma Sh."000"
Realization	300	300	300	Balance.b/d	2,850	2,850	2,850
Cash	2,820	-	-	Current	270	360	120
Bal to new firm	-	4,500	4,500	Cash	-	1,590	1,830
	3,120	4,800	4,800		3,120	4,800	4,800

CAPITAL A/C (GUSERWA & COMPANY)

	Apopo Sh."000"	Cheloti Sh."000"	Chuma Sh."000"		Apopo Sh."000"	Cheloti Sh."000"	Chuma Sh."000"
Realization	240	240	60	Balance	1,800	1,800	450
loss	600	-	-	B/d	600	390	60
Contra	2,250	2,250	750	Current	-	300	300
Bal to new				Contra	690	-	-
firm	3,090	2,490	800	Cash	3,090	2,490	800

CAPITAL A/C (Kandie)

	Sh."000"		Sh."000"
Realization	135	B/d	900
Cash	15		
Bal to new firm	750		
	900		900

CASHBOOKS (Old Firms)

	Apopo & Co Sh"000"	Guserwa & Co Sh"000"	Kandie Sh"000"		Apopo & Co Sh"000"	Guserwa & Co Sh"000"	Kandie Sh"000"
Bal. B/d	750	300	165	Capital			
Capital:				Apopo	2,820	-	-
Cheloti	1,590	-	-	Kandie	-	-	15
Chuma	1,830	-	-	Creditors	450	360	120
Guserwa	-	690	-	Bal. to New firm	900	630	30
	4,170	990	165		4,170	990	165

Journal Entries

	Dr	Cr
Office Equipment	300	
Goodwill	1,800	
WIP	1,800	
Debtors	4,200	
Cash	900	
Capitals: Cheloti		4,500
Chuma		4,500

To record takeover of assets and capital from Apopo, Cheloti and Company.

Office Equipment	420	
Goodwill	1,050	
WIP	1,050	
Debtors	2,100	
Cash	630	
Capitals: Guserwa		2,250
Kurgat		2,250
Ochieng		750

To record takeover of assets and capital from Guserwa & Company.

	Dr	Cr
Office Equipment	150	
Goodwill	150	
WIP	240	
Debtors	180	
Cash	30	
Capitals: Kandie		750

To record takeover of assets and capital from Kandie.

(b)

	1st Six Months Sh"000"	2nd Six Months Sh"000"	Full Year Sh"000"
Profit after salaries	2,400	2,400	4,800
Add back salaries	300 x 6	300 x 7	
	1,800	2,100	3,900
Profit before salaries	4,200	4,500	8,700

PROFIT & LOSS APPROPRIATION A/C

	6 Months to 30.09.99		Six Months to 31.03.00		TOTAL	
	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"
Net profit		4,200		4,500		8,700
Salaries: Cheloti						
Chuma	300		300		600	
Guserwa	300		300		600	
Kurgat	300		300		600	
Ochieng	300		300		600	
Kandie	300		300		600	
Maina	-	(1,800)	300	(2,100)	300	(3,900)
		2,400		2,400		4,800
Profit share:						
Cheloti	720		540		1,260	
Chuma	720		540		1,260	
Guserwa	360		480		840	
Kurgat	360		480		840	
Ochieng	120		120		240	
Kandie	120		180		300	
Maina	-	2,400	60	2,400	60	4,800
		-		-		-

CURRENT A/C

	Cheloti	Chuma	Guserwa	Kurgat	Ochieng	Kandie	Maina		Cheloti	Chuma	Guserwa	Kurgat	Ochieng	Kandie	Maina
Drawings	270	270	270	270	270	270	-	Salaries	300	300	300	300	300	300	-
Drawings	360	360	180	180	60	60	-	Profit share	720	720	360	360	120	120	-
Bal c/d	390	390	210	210	90	90	-								
	1,020	1,020	660	660	420	420	-		1,020	1,020	660	660	420	420	-
								Bal b/d	390	390	210	210	90	90	-
								Salary	300	300	300	300	300	300	300
								Profit share	530	540	480	480	120	180	60
								Capital a/c	125	125	-	-	-	-	-
								Bal c/d	-	-	-	-	-	-	65
	1,355	1,355	990	990	510	570	425		1,355	1,355	990	990	510	570	425

CAPITAL A/C

	Cheloti	Chuma	Guserwa	Kurgat	Ochieng	Kandie	Maina		Cheloti	Chuma	Guserwa	Kurgat	Ochieng	Kandie	Maina
Cash book	1,000	1,000	-	-	-	-	-	Bal b/f	4,500	4,500	2,250	2,250	750	750	-
Current a/c	125	125	-	-	-	-	-	Cash book	-	-	750	750	-	250	250
Bal c/d	3,375	3,375	3,000	3,000	750	1,125	375	Current A/c	-	-	-	-	-	-	125
	4,500	4,500	3,000	3,000	750	1,125	375		4,500	4,500	3,000	3,000	750	1,125	375
Bal c/d	3,375	3,375	3,000	3,000	750	1,125	375	Bal b/d	3,375	3,375	3,000	3,000	750	1,125	375

QUESTION TWO

INVESTMENT IN CET BY BEM

	Sh"000"		Sh"000"
Bal b/d	4,00	Loan stock	5,000
To COC A/C	1,000		
	5,000		5,000

LOAN STOCK CET

	Sh"000"		Sh"000"
Investment in loan stock	5,000	Balance b/d	10,000
To CBS	5,000		
	10,000		10,000

INVESTMENT IN BEM BY A/C

	Sh"000"		Sh"000"
Bal b/d	80,0000	Loan stock of BEM	10,000
To COC	2,000		
	10,000		10,000

LOAN STOCK OF BEM

	Sh"000"		Sh"000"
Investment in loan stock	10,000	Loan stock	20,000
To CBS	10,000		
	20,000		20,000

Control structure	BEM	CET
	%	%
Parent: Direct	75	-
Indirect	-	60
MIDirect	25	20
Indirect	-	20
	100	100

COST OF CONTROL

	Sh"000"		Sh"000"
A/c: Investment in BEM	70,000	OSC: BEM	22,500
BEM: Investment in CET	27,000	Profit & Loss BEM	37,500
		OSC: CET	6,000
		Profit & Loss CET	18,000
		Inv. In BEM	2,000
		Inv. In CET	1,000
		Goodwill: Written off	3,600
		C/d	6,400
	97,000		97,000

PROFIT AND LOSS WORKING

	Sh"000"		Sh"000"
BEM	5,250	AC	15,350
CET	4,200		
Goodwill written off	3,600		
CBS	2,300		
	15,350		15,350

M. I

	Sh"000"		Sh"000"
Investment in CET	9,000	OSC: BEM	7,500
CBS	22,450	Profit & Loss BEM	10,750
		OSC: CET	4,000
		Profit & Loss CET	9,200
	31,450		31,450

AC LTD & SUBSIDIARIES
BALANCE SHEET AS AT 31.05.2000

		Sh"000"
Non Current Assets		
Profit, Property and Equipment		136,800
Goodwill		6,400
		143,200
Current Assets		
Debtors	36,800	
Cash	43,300	
Total Current Assets		80,100
		223300
Financed by:		
Share capital		100,000
Retained earnings		2,300
Shareholders fund		102,300
Minority interest		22,450
Total shareholders funds		124,750
Non current liabilities		
12% loan stock:		
AC	30,000	
BEM	10,000	
CET	5,000	45,000
Current Liabilities		
Creditors	25,000	
Tax payable	4,500	
Bank overdraft	9,300	
Dividend to MI	4,750	
Proposed dividends	10,000	
		53,550
		223300

QUESTION THREE

JOSHUA
BOOKS OF HEAD OFFICE

Branch Current A/c

	Sh"000"		Sh"000"
Bal b/d	2,466,600	Goods in transit	132,000
Profit	544,800	Cash in transit	525,000
	3,011,400	Bal c/d	2,354,400
	3,011,400		3,011,400

Books of Branch
Head Office Account

	Sh"000"		Sh"000"
Bal b/d		Bal b/d	1,809,600
Profit	2,354,400	Profit	544,800
Bal c/d			
	2,354,400		2,354,400

Price structure: Sales to public by HO		Price structures: Transfers to branch	
	%	Packed goods" cost	%
Packed goods cost	100	Transfer profit	100
Profit	25	Transfer price	10
		Branch profit	110
		Branch selling price	15
	125		125

Joshua
Trading Profit & Loss Account
For the year to 31.3.2000

	Head Office		Branch		Combined	
	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"
Sales		17,040		7,680		24,720
Goods sent to branch		7,814.4		-		-
		24,854.4		7,.680		24,720
Cost of Sales						
Purchase of goods	23,920.2				23,920.2	
Less closing stock	(2,160)				(2,160)	
	21,760.2				21,760.2	
Packaging costs	415.8				415.8	
	22,176				22,176	
Goods from Head office			7,682.4			
Less: stock lost			(52.8)			
Goods available for sale	22,176		7,629.6		22,128	
Less closing stock	(1,440)	(20,736)	(871.2)	(6,758.4)	(2,352)	(9,776)
Gross profit		4,118.4		921.6		4,944
Expenses						
Selling and sundry expenses	2,688		324		3,012	
Stock loss	-		52.8		48	
Unearned profit	91.2	(2,779.2)	-	(376.8)	-	(3,060)
		1,339.2		544.8		1,884

WORKINGS FOR COMBINED CLOSING STOCK AND MARK UP

	Stocks at selling price	Transport profit Sh."000	Stocks at cost Sh."000"
At Head office	1,440	-	1,440
At branch	871.2 (x 10/110)	79.2	792
In transit	132 (x 10/110)	12	120
	2,443.2	91.2	2,352

Joshua
Balance Sheet
As at 31.3.2001

	Head Office		Branch		Combined	
	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"	Sh"000"
Non-Current A/c						
Branch current a/c	2,354.4					
Less: unearned profit	(79.2)	2,275.2				
Current Assets						
Stocks in warehouse						
Raw materials	2,160				2160	
Finished goods	1,440		871.2		2232	
Stocks in transit						
Finished goods	132					
Less unrealized	(12)					
Profit	120		-		120	
Debtors	2,760		1,140		3864	
Cash at bank	1,944		408		2352	
Cash in transit	525		-		525	
Total current assets		8,949		2382.6		11253
		11224.2		2382.6		
FINANCED BY:						
Capital b/f		2,640				2,640
Add profit		1,884				1,884
		4,524				4,524
Less drawings		(300)				(300)
		4,224		2354.4		4,224
Head office current account						
Current liabilities						
Creditors	7,000.2		28.2		7,029	
		7000.2		28.2		7,029
TOTAL EQUITY AND LIABILITIES		11224.2		2382.6		11253

QUESTION FOUR

KORIR
STATEMENT OF AFFAIRS
AS AT MARCH 2001

GROSS LIABILITIES	LIABILITIES	EXPECTED TO TANK	ASSETS	ESTIMATED TO PRODUCE
Sh.				
277,260	Unsecured creditors	277,260	Stock	30,000
511,500	Fully secured creditors	511,500	Furniture	120,000
	Less value of security	675,000	Personal assets	9,000
	Surplus below/to contra	163,500	Debtors: good	60,000
			Doubtful	
194,400	Partly secured creditors	194,400	300,000	
	Value of		Bad	
	security/surplus above	148,500	6,195	22,500
			36,195	
	Deficiency ranking		Estimated to	300
	Unsecured	45,900	produce	7,500
				9,000
7,740	Preferential		Cash in hand	
	Creditors	7,740	Inheritance	
			receivable	15,000
			Sunday	264,300
			personal assets	
			Surplus from	(7,740)
			fully secured	256,560
			creditors per	
			contra	66,600
			Deduct	
			preferential	
			creditors per	
			contra	
			Deficiency as	
			per deficiency	
			a/c	
990,900		323,160		323,160

DEFICIENCY ACCOUNT

	Sh		Sh
Excess of assets over liabilities		Estimated loss on realization of assets:	
Business	180,000	Furniture	30,000
Personal estate	54,000	Debtors	51,405
Estimated surplus on realization of assets:		Unrecorded expenses	13,695
		Mortgage interest	3,500
Shops, land and builders	30,000	ICDC loan interest	14,400
Inheritance receivable	7,500	Drawings	197,100
Deficiency as per statement of affairs	66,600		
	338,100		338,100

W1: Workings for secured creditors: (Fully secured)

	Liability Shs.	Value of security	Surplus/deficit
Mortgage on shop	481,500	630,000	148,500
Loan from cooperative	30,000	45,000	15,000
	511,500	675,000	163,500

W2: Workings for partly secured creditors

	Liability Shs.	Value of security	Surplus/deficit
ICDC Loan and interest	194,400	148,500	45,900

W3: Workings for unsecured creditors

	Sh.
Barclays bank loan	90,000
Loan – A Kariuki	15,000
Loan – W Kariuki	3,000
Trade creditors (171,00 – 4,500)	166,500
	274,500

W4: Workings for preferential creditors

	Sh.
Salaries and wages payable	2,700
NHIF, NSSF & PAYE	540
Nairobi City Council Rates due	4,500
	7,740

QUESTION FIVE

WORKINGS
INCOME APPORTIONMENT

(i) Dividends from K.F.C. shares
= 10% x par value
= 10% x (10,000 x 20)
= 20,000

The entire amount shall be accounted for as income since dividend received is account for as income at the point where it is received; unlike interest which accrues (and is apportioned) on a time basis.

(ii) Interest from freehold property securities

1/7/2000 – 31/12/2000 = 5% x 400,000 x 6/12	10,000
Pre-death (estate capital) = 4/6 x 10,000	6,667
Post – death (income) = 2/6 x 10,000 =	3,333
	10,000

(iii) Interest from shares of Kombo and company

Note 5, the shares were received with interest of 5%	
Therefore 105% of the principal =	1,226,400
Principal = $\frac{1,226,400}{105}$ x100	
= 1,168,000; Interest = 5% x 1,168,000=	58,400
Interest for 10 months (Estate capital)	
= 10/12 x 1,168,000 x 5% =	48,667
Interest for 2 months (2/12 x 58,400) =	9,733
	58,400

JOURNAL ENTRIES

		Sh.	Sh.
1.	Household furniture a/c	90,000	
	Cash in house	2,000	
	Cash at bank	250,000	
	Investment in freehold property	300,000	
	Share in Kombo & Co. a/c	1,226,400	
	Debtors	20,000	
	Liabilities		5,000
	Provision for funeral expenses		10,000
	Estate capital		2,273,400
	To record he initial account balances		
2.	15th Dec. 2000		
	Cash capital	96,000	
	Furniture		90,000
	Gain (capital estate)		6,000
	To record sale of furniture		
3.	15th Dec. 2000		
	Cash capital	290,000	
	Estate capital	10,000	
	Share in KFC		300,000
	To record loss on disposal of investment		
4.	20th Dec. 2000		
	Liabilities A/c	5,000	
	Provision for funeral expenses	10,000	
	Cash capital		15,000
	To record discharge of expenses above		
5.	Cash a/c capital	10,000	
	Debtors a/c		10,000
	To record receipt of a debt		
6.	31st Dec. 2000		
	Cash capital – Estate cash book	6,667	
	Estate cash book	3,333	

	Estate capital		6,667
	Estate income		3,333
	To record interest from		
7	Cash capital (1,226,400 + 48,667)	1,275,067	
	Cash income	9,733	
	Share in Kombo & Co.		1,226,400
	Estate capital		48,667
	Estate income		9,733
	To record interest on shares of Kombo & Co.		

ESTATE CASH BOOK

2000	Sh.	Sh.		Sh.	Sh.
31/10 Estate capital	252,000		20/12 Liabilities	5,000	
15/12 Furniture a/c	96,000		20/12 Funeral expenses	10,000	
15/12 KFC Shares	290,000				
20/12 Debtors	10,000				
31/12 Invest in F Pro	6,667	3,333			
31/12 Inv in Kombo	1,168,000				
Invest in Kombo	48,667	9,733			
2001			2001		
			28/1 Distribution	20,000	
25/1 Dividends KFC		20,000	31/1 Bal c/d	1,836,334	33,066
	1,871,334	33,066		1,871,334	33,066

ESTATE INCOME A/C

	Sh		Sh
		31/12 Investment in Kombo & Co.	9,733
		31/12 Investment in freehold property	3,333
2001		2001	
31/1 Bal c/d	33,066	25/1 Investment in KFC Ltd Shares	30,000
	33,066		33,066

ESTATE CAPITAL ACCOUNT

2000	**Sh**	**2000**	**Sh**
15/12 Investment in KFC – Loss on disposal	10,000	1/1 Net estate b/d	2,273,400
		15/1 Gain on sale of furniture	6,000
31/12 Investment in Kombo	9,733	31/12 Income from property	6,667
2001		2001	
28/1 Distribution	20,000		
31/1 Bal c/d	2,246,334		
	2,286,067		2,286,067

Kombo (deceased) Died on 31 October 2000
Balance Sheet
As at 31 January 2001

	Sh.	Sh.
Capital assets		
Investment on freehold property securities	400,000	
Sundry debtors (20,000 – 10,000)	10,000	
Cash at bank/in hand	1,836,334	2,246,334
Income assets		
Cash at bank or in hand		33,066
		2,279,400
Estate capital		2,246,334
Estate income		33,066
		2,279,400

DECEMBER 2009

QUESTION ONE

Note: The examiner requires the use of merger method of accounting. Merger method of accounting relates to accounting for mergers as per the requirements of IAS 22. Currently the new IFRS 3 that supersedes IAS 22 prohibits the use of merger accounting where a merger takes place. All mergers should now be accounted for the same way as acquisition or purchase method.

(a) **ACQUISITION APPROACH**
AHL and its subsidiary
Consolidated profit and loss account
For the year ended 30th April 2001

	AHL		NFL		POST ACQ. NFL		CONSOLIDATED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		293,300		300,000		100,000		393,300
Less: Cost of sales		(186,650)		(208,500)		(69,500)		(256,150)
Gross profit		106,650		91,500		30,500		137,150
Less: Expenses								
Admin expenses	36,940		30,900		10,300		47,240	
Distribution expenses	55,410		46,350		15,450		70,860	
Goodwill amortisation.	-	(92,350)	-	(77,250)	-	(25,750)	303	(118,100)
Pre-tax profit		14,300		14,250		4,750		18,747
Tax		(4,290)		(4,275)		(1,425)		(5,715)
Post-tax profit		10,010		9,975		3,325		13,032
Profit attributable toMI								166
Profit attributable to		-				-		12,866
s/hoilders		10,010		9,975		3,325		13032

WORKINGS

W1 Acquisition dates

8 Months | 4 Months

1.5.2000 14.2001 31.4.2001

Dividends receivable = 95% of proposed dividends
= Sh. 4,750,000

Accounting treatment	DR dividends receivable	4,750
	CR Group P& l a/c (Post-acquisition)	2,850
	CR Cost of control (Pre-acquisition)	1,900

Post acquisition dividend	= 95% x 4/12 x (4,000 + 5,000)	= 2,850
Dividends receivable	= 95% 0f final dividend	
	= 95% x 5,000	= 4,750
Pre-acquisition dividends	= 4,750 – 2,850	= 1,900

W2

Cost of control a/c

Consideration given:		NFL Ordinary shares (95% x 40,000)	38,000
Ordinary share capital (95% x [40,000] x. 2 x 10) / 20	38,000	NFL: Profits Balance b/f (95% x 22,560)	21,432
Share premium (95% x [40,000] x 2 x (17.5-10)) / 20	28,500	Current profits (95% x 975 x 8/12)	618
		Pre-acquisition dividends	1,900
		Goodwill	4,550
	66,500		66,500

W 3

Current year goodwill armotised = $\frac{4,550}{60} \times 4$ = 303

Minority interest profit & loss = 5% x 3,325 = 166

Minority interest dividend share = 5% x 5,000 = 250

Minority interest account

		NFL Ordinary shares Capital (5% x 40,000)	2,000
		NFL: Profits	1,128
		Profits Balance b/f (5% x 22,560)	49
Balance c/d	3,177	Current year (5% x 975)	-
	3,177		3,177

W 4 Taxation

Tax a/c (AHL)

Cash	4,250	P& L	4,290
Balance c/d	430	Deferred tax	390
	4,680		4,680

AHL Deferred tax a/c

Tax	3900	Balance b/d	3,720
Balance c/d	3,330		
	3,720		3,720

NHL deferred tax a/c

Tax	480	Balance b/d	4,460
Balance c/d	3,980		
	4,460		4,460

NHL Tax a/c

Cash	4,330	P& L	4,275
Balance c/d	425	Deferred tax	480
	4,755		4,755

W 5STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL Sh."000"	SHARE PREMIUM Sh."000"	RETAINED PROFIT Sh."000"	TOTAL Sh."000"	MINORITY INTEREST Sh."000"	TOTAL S"HOLDER"S FUNDS Sh."000"
Balance b/d	30,000	-	17,680	47680	1261	48941
Shares issued	38,000	28,500	-	66500	2000	68500
Profit for the year		-	12,866	12866	166	13032
Less Dividends:						
Interim			3000			
Final			8500			
			(11500)	(11500)	(250)	(11750)
Total (Balance b/d)	68,000	28,500	19,046	115546	3177	118723

AHL LTD and its subsidiary
Consolidated Balance sheet
As at 30th April 2001

	Sh."000"	Sh."000"
Non-Current Assets		
Property, plant and equipment (note 1)		75590
Goodwill	4550	
Less amortization	303	4,247
		79,837
Current Assets		
Debtors	56,950	
Stock	24,100	
Cash	5,750	86800
Total Assets		166,637
EQUITY AND LIABILITIES:		
Ordinary share capital @10		68,000
Share premium		28,500
Profit and loss a/c		19,046
Group shareholders equity		115,546
Minority interest		3,177
Deferred tax		7,310
		126,032
Current Liabilities		
Creditors	27,650	
Bank overdraft	3,350	
Proposed dividends	8,500	
NHL Minority Dividends	250	
Tax due	855	
		40,605
TOTAL EQUITY AND LIABILITIES		166,637

NOTE 1
PROPERTY PLANT AND EQUIPMENT

	Freehold land & buildings	Plant and Machinery	Motor vehicles	TOTAL
COST	40150	76000	11800	127950
ACCUMULATED DEPRECIATION	(16060)	(30400)	(5900)	(52360)
NBV	24090	45600	5900	75590

(b) **MERGER (POOLING OF INTEREST) APPROACH AHL GROUP**
Consolidated P& L A/C
For Period Ended 30 April 2001

	AHL		NFL		GROUP	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		293,300		300,000		593,300
Cost of sales		(186,650)		(208,500)		(395,150)
Gross profit		106,650		91,500		198,150
Administrative expenses	36,940		30,900		67,840	
Distribution expenses	55,410	(92,350)	46,350	(77,250)	101,760	(169,600)
Profit before tax		14,300		14,250		28,550
Taxation						
Current	4,680		4,755		9,435	
Transfer from deferred tax	(390)	(4,290)	(480)	(4,275)	(870)	8,565
		10,010		9,975		19,985
Less: Minority interest						
(5% x 9975 =498.75)						(499)
Group net profit						19,486

STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30TH APRIL 2001

	Sh."000" Share capital	Sh."000" Profit & loss	Sh."000" Total
Balance b/d	30,000	17,680 + 95% x 22,560 = 39,112	69,112
Shares Issued by AHL (95% x [40,000] = 1,900 / 20			
1900 x 2 x 10	38,000		38,000
Net profit for the year		-	19,486
Dividends		19,486	
- Interim (3,000 + 95% x			(6,800)
4,000)		(6,800)	(8,500)
- Final	68,000	(8,500)	111,298
As on 30/4/2001		43,928	

Merger a/c

	Sh."000"		Sh."000"
Ordinary share capital - AHL	38,000	Ordinary share capital - NFL 95% x 40,000	38,000

Deferred tax a/c

	Sh."000"		Sh."000"
Group P& L a/c		Balance b/d	3,720
- AHL	390	- AHL	4,460
- NHL	480	- NFL	
To consolidated balance sheet	7,310		
	8,180		8,180

MINORITY INTEREST A/C

	Sh."000"		Sh."000"
To consolidated balance sheet	3,177	Ordinary share capital	
		5% x 40,000	2,000
		- P& L – 5% x 22,560	1,128
		Current profit	
		(499 – 5% x 4,000 – 5%)	49
	3,177		3,177

AHL GROUP
CONSOLIDATED BALANCE SHEET
AS AT 30TH APRIL 2001

	Sh."000"	Sh."000"
Non-Current Assets		
Property, plant and equipment (note 1 above)		75590
Current Assets		
Debtors	56,950	
Stock	24,100	
Cash	5,750	
Total Assets		86800
		162390
EQUITY AND LIABILITIES:		
Ordinary share capital @10		68,000
Group retained reserve		43298
Group shareholders equity		111298
Minority interest		3,177
Deferred tax		7,310
		121785
Current Liabilities		
Creditors	27,650	
Bank overdraft	3,350	
Proposed dividends	8,500	
NHL Minority Dividends	250	
Tax due	855	
		40,605
TOTAL EQUITY AND LIABILITIES		162390

QUESTION TWO

MOMBASA BRANCH STOCK A/C

	Sh."000"		Sh."000"
Opening stock		Goods to Taita	720
Goods received from HO	5,280	Returns to HO	1,360
Goods from Voi	116,728	Cash sales	52,800
Sales returns to Mombasa	560	Cash stolen (sales)	240
Mark up on selling price	880	Goods stolen	960
(15% x 1120)	168	Credit sales	61,686
		Balance c/d	5,850
	123,616		123,616

MOMBASA BRANCH MARK UP A/C

	Sh."000"		Sh."000"
Mark up on:		Mark up on: Opening Stock	
Goods Taita (3/8 x 720)	270	(3/8(5,280 – 80) + 80)	2030
Returns to HO (3/8 x 1,360)	510	Goods from HO	
Goods stolen (3/8 x 960)	360	(3/8 x 116,728)	43773
Customer return to Voi		Goods from Voi (3/8 x	210
(3/8 x 280) + 42)	147	560)	
Closing stock		Upward adjustment on:	168
(3/8 (3,850 – 42) + 42)	2,220	Stock	
P& L	42,674	(15% x 1,120)	
	46,181		46,181

WORKINGS

(1)

Goods returned by customer

$115\% \rightarrow 322$

$100\% \rightarrow \frac{100 \times 322}{115} = 280$

Profit = 320

(2)

Mark up = $\frac{60}{160} = 3/8$

MOMBASA BRANCH
MEMORANDUM TRADING, PROFIT & LOSS A/C FO R YEAR ENDED 31.05.01

Sales: Cash	52,800	
Cash stolen	240	
Credit	61,280	114,726
Sales returns: To Mombasa Branch	880	
To Voi Branch	322	(1,202)
Net sales		113,524
Cost of sales		
Opening stock (5280 – 2030)	32,550	
Goods from Head office (116728 – 43773)	72,955 350	
Goods from Voi (560 – 210)	76,555	
	(450)	
Goods sent to Taita (720 270)	(850)	
Branch returns to Head Office (1360 – 510)	(600) (175)	
Goods stolen (960 – 360)	(3630)	
Return to Voi (322 – 147)	(5705)	(70,850)
Closing stock (5850 – 2220)		42,674
Gross profit as per Branch Mark up	12,802	
Less Expenses	17,072	
Administration expenses	600	
Distribution cost	240	(30,714)
Goods stolen		11,960
Cash stolen		

QUESTION THREE

POLEPAY TRADERS
STATEMENT OF AFFAIRS AS AT 30. 04 2001

Liabilities	Pole pay Sh."000"	Lemasio Sh."000"	Ayimba Sh"000"		Pole pay Sh."000"	Lemasio Sh."000"	Ayimba Sh"000"
Unsecured creditors	31,050	80	70	**Unfledged assets**			
Fully secured		3,300		Plant & Equipment	7,500	-	-
Value of security		4,00		Furniture	-	180	100
To contra		700		Inventory	13,500	-	-
Party secured	11,200	280	9,040	Receivables	13,100	-	-
Value of security	(8,000)	(250)	(5,700)	Other investment	-	700	-
To rank	3,200	130	3,340	Cash	180	90	140
Preferential	820	590	380	Surplus contra	-	700	-
Surplus to firm		790			34,280	1,670	240
Surplus c/d		80		Less preferential	820	590	380
					33,460	1,080	(140)
				Surplus from L	790		
				Deficiency			3,550
	34,250	1,080	3,410		34,250	1,080	3,410

Liabilities	Pole pay Sh.000	Lemasio Sh.000	Ayimba Sh000		Pole pay Sh."000"	Lemasio Sh."000"	Ayimba Sh"000"
Excess of assets				Realization loss			
Over liabilities	24,00	15,990	15,550	Land & buildings	4,450	-	-
Revaluation gain	-	-	-	Houses	-	1,500	1,300
Surplus from	790	-	-	Plant & Equipment	7,100	-	-
Deficiency as Per SOA	-	-	3,550	Furniture	-	470	300
				Inventory	6,100	-	-
				Receivables	7,140	-	-
				Other investments	-	900	300
				Motor car	-	250	600
				Loss on guarantee	-	-	46,000
				Loss on capital	-	12,000	12,000
				Surplus to firm	-	790	-
				Surplus c/d	-	80	-
	24,790	15,990	19,100		24,790	15,990	19,100

Other Investments

Lemasia	=	13,600 – 12,000	=	1,600
Then:		1,600 – 700	=	900
Ayimba	=	14,200 – 12,000	=	2,200
Then:		2,200 – 1,900	=	300

Ayimba: Partly secured creditors

	Creditors	**Security**	**Deficit**
Long term loan	3,840	3,500	340
Car loan	600	300	300
Bank overdraft	4,600	1,900	2,700
	9,040	5,700	3,340

REALISATION A/C

	Sh."000"		Sh."000"
Net assets taken over	2,595	Loss on realization	60
(W1)	315	Purchase consideration	2,850
Goodwill (Balancing figures)			
	2,910		2,910

1. Assets – Liabilities (Net assets) = Capital + profits - drawings
= 1,350 + 750 + 495 – 0
= 2,595

QUESTION FOUR

a) Maina and Ojara

1.11.99 ⟵⟶ 30.4.00 ⟵⟶ 30.4.01

Net profit
= 495

Operating profit before
interest and tax
= 1680

Realisation a/c

	Sh. „000"		Sh. „000"
Net assets		Capital: Realisation	
Taken over		loss	60
capital plus profit)	2,595	Purchase consideration	2,850
Goodwill	315		
	2,910		2,910

NB: The valuation in note 1 of the question may be computed as:

	Sh „000"
Net assets taken over:	2,595
Realisation loss as per trial balance:	(60)
Valuation per note 1:	2,535

Assets – Liabilities = Capital + profit – drawings
Therefore Net Assets = (1,350 + 750) + 495 – 0
= 2,595

Capital a/c

	Maina	Ojara		Maina	Ojara
	Shs. „000"	Shs. „000"		Shs. „000"	Shs. „000"
Realisation loss	36	24	Balance b/d	1350	750
Invest. in ord. Shares	1260	840	Profit share	297	198
Invest. in 20%	270	180	Goodwill	189	126
Debentures	54	36	Dissolution exps.	90	-
Dissolution exps. Shared	306	-	Paid	-	6
C book	1,926	1,080	C book	1,926	1,080

(b) **Maoja Ltd**
Income Statement for the year ended 30.04.01

	Sh."000"	Sh."000"
Sales		10,080
Cost of sales		(6,720)
Gross profit		3,360
Distribution expenses	1,092	
Administrative expenses (W2)	651	
Finance costs	90	(1,833)
Profit before tax		1,527
Income tax expense		470
Profit after tax		1,057
Dividends: Interim	300	
Final	210	(510
		547

Note that final proposed dividends have been included in the income statement because the examiner rquires so. Currently IAS 10 requires proposed dividends if declared after the year end to be given as notes to the accounts.

Maoja Ltd
Balance Sheet as at 30.04.01

	Sh."000"	Sh."000"
Non current Assets		2,085
Plant, property and equipment (Note 4)		252
Goodwill		2,337
Current Assets		
Inventory	1,140	
Receivables	1,515	
Cash and bank	405	
Total current Assets		3,060
Total Assets		5397
Financed by:		
Issued and fully paid share capital		
210,000 ordinary shares of Sh.10 each		2,100
Retained profits		547
Shareholders funds		2,647
Long term liabilities		
20% debentures		450
		3,097
Current liabilities		
Payables	1,530	
Accruals (debenture interest)	90	
Current tax	470	
Proposed dividends	210	2,300
TOTAL EQUITY AND LIABILITIES		5397

W2: Administrative expenses

	Sh. "000"
Given	588
Add goodwill amortised (315/5)	63
	651

Notes to the financial statements:

1. The above financial statements have been prepared under the historical basis of accounting applicable IFRSs.
2. The net profit has been arrived at after charging:

	Sh."000"
Director"s remuneration	60
Depreciation	255
Amortisation of goodwill	63
Staff costs	402

3. The tax expense for the year has been arrived at after charging tax at a corporate rate of tax of 30% applicable in Kenya.

4. Plant, property and equipment

	Land & Buildings Sh."000"	Plant & Machinery Sh."000"	Vehicles Sh."000"	Total Sh."000"
Cost/valuation				
Bal as at 01.05.00	-	-	-	-
Additions	900	900	540	2,340
Bal as at 30.04.01	900	900	540	2,340
Depreciation				
Bal as at 01.05.00	-	-	-	-
Charge for the year	30	90	135	255
Bal as at 30.04.01	30	90	135	255
NBV as at 30.04.01	870	810	4050	2,0850

QUESTION FIVE

(a) **SCHEDULE OF ASSET DIVISION**

ASSET	VALUATION		WIDE RANGE	FIXED INTEREST RANGE	SPECIAL RANGE
E.A. Breweries Ltd. shares	3000 x 120	= 360	360		
BAT(K) Ltd shares	6000 x 96	= 130	576		
Medals won in athletics		= 130			130
Nairobi City Council 6%	56/100 x 500	= 280		280	
House in Kileleshwa		3,750			3,750
House in Peponi		4,250			4,250
Shares in Laki Ltd		450			450
Shares in Wiro Ltd		600			600
Fidelity Building Society shares		300	300		
& Kenya Stock 2005	(500 x 1.10)	=550		550	
10% Kenya stock 2002	(1 x 1,000)	=1,000	434	566	
Cash at Bank		274	0	214	
		12,520	1,670	1,670	9,180

BALANCING ADJUSTMENT

Find balance b/d		Cash	10% stock	Balance c/d
Wide range	1,236	-	434	1,670
Fixed interest range	830	275	566	1,670

(b) **TRUST CASH ACCOUNT**

	WR	FR	SR		WR	FR	SR
1/5 Bal b/d		274		15/6 Transfer			200
15/6 Sale of medals			200	30/9 Transfer			3,900
Transfer	100	100		31/12 Transfer			3,000
30/9 sale of house in				To wide Range (W1)		1,934	
Kileleshwa			3,900	Treasury bills (W1)		1,890	
Transfer	1,950	1,950		Nation Media Group	5,484		
31/12 Sale of Peponi hse			3,000				
Transfer	1,500	1,500					
From F Range	1,934						
2001 Liquidate building				2001			
society	300			Fee University	300		
30/4 Mortgage		500		30/4 Treasury bills		500	
	5,784	4,324	7,100		5,784	4,324	7,100

(c) **TRUST CAPITAL ACCOUNT**

	WR	FR	SR		WR	FR	SR
15 June Transfer			200	1 May	1,670	1,670	9,180
20 Sept Transfer			3,900	15 Jun Gain on medal			70
31 Dec			6,000	Transfer	100	100	
2001				30 Sep Kileleshwa			150
28/2 School fees	300			Transfer (Contra)	1,950	1,950	
30 Apr Bal c/d	6,420	6,120	1,050	31/2 Peponi gain			1,750
				Transfer	3,000	3,000	
	6,720	6,720	11,150		6,720	6,720	11,150

Workings

(1) **Note 6**

Shares purchased		
45,700 x 100	5,484	
Available cash	(3,550)	
Deficit	1,934	= 1,890 + 1,935
F. Range	3,824	
Transfer to wide range	(1,934)	
	1,890	To be used to purchase treasury bills

(d) **LAWI KIPROP**
TRUST BALANCE SHEET
AS AT 30 APRIL 2001

	Sh."000"
Shares in EAB (3000 x 120)	360
Treasury bills	2,390
BAT shares (6000 x 96)	576
500,000 6% Stock	280
1,500 shares inLaki Ltd	450
Shares in NMA	5,484
2500 shares in Wiro	600
Mortgage due	2,500
Sh.500,000 12% stock	550
Treasury bills Sh.1m 10% stock	1,000
	14,190
Financed by:	
Trust capital:	
Wide Range	6,420
Fixed Range	6,720
Special Range	1,050
	14,190

MAY 2010

QUESTION ONE

(a) **Viatu Ltd**
Income statement for the year ended 31 March 2003

	Sh."000"	Sh."000"
Turnover (W1)		1,190,694
Cost of sales		(699,922)
Gross profit		490,657
Other Incomes : Discount received	812	
Profit on disposal	15	
Investment income	2,680	3,507
		494,164
Selling and distribution expenses	176,104	
Administrative expenses	245,688	
Finance costs	1,600	(423,392)
Profit before tax		70,772
Income tax expense: Current	11,820	
Deferred	(1,800)	(10,020)
Profit for the period		60,752

Viatu Ltd
STATEMENT OF CHANGES IN EQUITY AS AT 31.03.02

	Ordinary share capital Sh."000"	Preference share capital Sh."000"	Share premium Sh."000"	General reserve Sh."000"	F.A Rev. Reserve Sh."000"	Retained earnings Sh."000"	Total Sh."000"
Bal b/f	200,000	200,000	400,000	600,000	-	110,848	610,848
Prior adjustment	-	-	-	-	-	-	-
Restated	200,000	200,000	400,000	600,000	-	110,848	610,848
Rev. gain on NCA	-	-	-	-	30,000	-	30,000
Rev. gain on investment	-	-	-	-	390	-	390-
Rev. gain on foreign	-	-	-	-	-	-	-
Net profit: year	-	-	-	-	-	60,752	60,752
Dividends:	-	-	-	-	-		
Interim	-	-	-	-	-	(13,000)	(13,000)
							-
Bal b/d	200,000	200,000	40,000	60,000	30,390	158,600	68,8990

(b) **Viatu Ltd**
Balance sheet as at 31 March 2002

	Sh."000"	Sh."000"
Non Current Assets		
Plant, property and equipment		334,900
Investments Other		62000
		396900
Current Assets		
Stock	204,132	
Debtors (336,440 – 16,822)	319,618	
Trade investments	30,000	
Cash and bank (11,745 + 3,000)	14,745	568,495
		965395
FINANCED BY:		
Authorised share capital		
15m shares 6.5% preference @ Sh.20		300,000
50m share ordinary @ Sh.10		300,000
		600,000
Issued and fully paid		
10m 6.5% preference shares @ Sh.20		200,000
20m Ordinary shares @ Sh.10		200,000
		400,000
Reserves		
Share premium	40,000	
Revaluation reserve	30,390	
General reserve	60,000	130,390
Retained profit	158,600	158,600
Shareholders funds		688,990
Non current liabilities		
8% debentures	20,000	
Deferred tax	1,200	21,200
		710190
Current liabilities		
Trade creditors	102,000	
Tax payable (11,820 – 8,615)	3,205	
Accrued directors" fee	150,000	255,205
TOTAL EQUITY AND LIABILITIES		965395

Workings

1. **Turnover**

	Sh."000"
As per trial balance	1,191,864
Less proceeds and disposals	(1,215)
	1,190,649

2. **Selling and distribution** costs

As per TB	78,840
Motor vehicle expenses	59,864
Wages	25,000
Depreciation: Motor vehicle	12,580

	176,104

3. **Administrative expenses**

Wages and salaries	70,834
As per TB	11,492
Audit fees	1,400
Depreciation: fixtures	1,040
Compensation of director for loss of office	8,500
Provision for doubtful debts (16,822 – 14,400)	2,422
Director"s fee	150,000
	245,688

4. Profit on assets disposed

	Motor vehicles	Fixtures & Fittings	Total
Cost			4,255
Acc. Dep.	2,800	1,455	3,055
NBV	2,150	905	1,200
Proceeds	650	550	1,215
Profit & Loss	715	500	
		6,500	

DEFERRED TAX A/C

	Sh."000"		Sh."000"
Profit U Loss	1,800		
Bal c/d (30% x 4,000)	1,200	Bal b/d	3,000
	3,000		3,000

Notes to the accounts

Note 1 Accounting policies

These financial statements have been prepared under the historical cost basis of accounting which is modified to accommodate the revaluation of certain properties and in accordance with the applicable IFRSs.

Property plant and equipment is shown at cost or revalued amount less the total accumultaed depreciation, which is based on the estimated useful life of the assets.

Inventory has been stated at the lower of cost and net relisable value.

Note 2 Profit before tax

The profit before tax has been arrived at after charging the following expenses

	Sh."000"
Directors fee	205,000
Compensation to director for loss of office	8,500
Depreciation	13,650
Auditors fee	1,400
Staff costs	40,834

Note 3 Taxation

Corporation tax is based on the adjusted profits for tax purpose at a corporation tax rate of 30%.

Note 4 Propety plant and equipment

COST/VALUATION	Freehold land & Buildings Sh."000"	Motor vehicles Sh."000"	Fixtures & Fittings Sh."000"	Total Sh."000"
Bal as at 01.04.01	270,000	48,960	19,200	338,160
Additions	-	2,240	1,600	3,840
Disposals	-	(2,800)	(1,455)	(4,255)
Revaluations	30,000	-	-	30,000
Bal as at 31.03.02	300,000	48,400	19,345	367,745
Accumulated Depreciation				
Bal as at 01.04.01	-	13,820	8,460	22,280
Eliminated on disposal	-	(2,150)	(905)	(3,055)
Charge for the year	-	12,580	1,040	13,650
Bal as at 31.03.02	-	24,250	8,595	32,845
NBV as at 31.03.02	300,000	24,150	10,750	315,880
NBV as at 01.04.01	270,000	35,140	10,740	315,880

Note 5 Dividends

During the year the company paid a dividend of sh.1.30 on the preference shares outstanding. The directors are now proposing a dividend of sh.1.35 per s share on the number of ordinary shares outstanding at the end of the year.

QUESTION TWO

It is difficult to approach the question by preparing the profit and loss account for the last six months because this is what the examiner asked for. Therefore the results for the fisrt six months have been included for the purpose of illustration only.

Kamaro ltd
Trading profit and loss account for the year ended 31 May 2002

	Six months to 30.1.01		Six months to 31.05.02		Total	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		24,000		36,000		60,000
Cost of sales		14,400		21,600		36,000
Gross profit		9,600		14,400		24,000
Less Expenses						
Administrative expenses	3,000		3,000		3,000	
Selling expenses	1,200		1,800		3,000	
Audit fees	600		600		1,200	
Incorporation expenses	-		600		600	
Depreciation: Furniture	300		120		420	
Motor vehicle	1,200		600		1,800	
Interest on loan	450		-		450	
Director"s salaries	-		1,650		1,650	
Goodwill written off	-	6,750	3,500	11,870	3,500	18,020
Net profit		2,850		2,530		5,380
Less salaries: - Kamau	750				750	
Maneno	450				450	
Rotino	450	1,650			450	1,650
		1,200				3,730
Share of profits: Kamau	400				400	
Maneno	400				400	
Rotino	400	(1,200)			400	(1,200)
		-				2,530

CAPITAL ACCOUNTS

	Kamau Sh."000"	Maneno Sh."000"	Rotino Sh."000"		Kamau Sh."000"	Maneno Sh."000"	Rotino Sh."000"
Drawings	750	450	450	Balance b/d	18,000	9,000	6,000
Share capital	23,000	23,510	11,060	Salaries	750	750	450
				Profits	400	400	400
				Goodwill	4,500	4,500	4,500
				Revaluation	100	100	100
				Interest		450	-
				Loan		9,000	-
	23,750	23,960	11,510		23,750	23,960	11,510

Kamaro ltd
Balance sheet as at 31 May 2002

	Ksh. "000"	Ksh. "000"
Non Current assets		
Property, plant and equipment (note 1)		34,680
Goodwill		10,000
Current Assets		
Inventories	14,400	
Accouts receivable	9,000	
Prepayments	600	
		24,000
		68680
Financed by		
: Ordinary share capital		57,630
Retained profits		2,530
		59,980
Current liabilities		
Accounts payables	7,200	
Accruals	300	
Bank overdraft	1,200	
		8,700
TOTAL EQUITY AND LIABILITIES		68,680

NOTE 1

PROPERTY, PLANT AND EQUIPMENT

	COST	ACC.UMULATED DEPRECIATION	NBV
Freehold property	27,000	-	27,000
Furniture and fittings	2,400	(120)	2,280
Motor vehicles	6,000	(600)	5,400
			34,680

Revaluation account

Motor vehicles		1,200	Freehold property	1,200
Capital: K	100		Furniture & Fittings	300
M	100			
R	100	300		
		1,500		1,500

QUESTION THREE

Dolly manufacturers
Trading Profit and Loss Account 31 march 2002

	Head office		Branch		Branch		Combined	
	KSh. „000"	KSh. „000"	Zm. „000"	Zm. „000"	KSh. „000"	KSh. „000"	KSh. „000"	KSh. „000"
Sales		101,090.000		277,233.000		25,203.000		126,293.000
Goods sent to		16,900.000		0.000		0.000		________
branch		117,990.000		277,233.000		25,203.000		126,293.000
Cost of Sales	14,050.000						14,050.000	
Opening Stock	65,630.000		48,807.000		4,437.000		70,067.000	
Purchases	________		156,500.000		15,650.000		________	
Goods from	79,680.000		205,307.000		20,087.000		84,117.000	
Head office	28,500.000)	(51,180.000)	(21,775.000)	(183,532.000)	(2,050.000)	(18,037.000)	(30,310.000)	(52,807.000)
		66,810.000		93,701.000		7,204.636		73,524.636
Less closing								
stock								
Gross profit	1,600.000		9,450.000		900.000		2,500.000	
	19,250.000		28,514.600		2,592.236		21,842.236	
Expenses	7,330.000		19,815.400		1,801.400		9,131.400	
Depreciation –	490.000		0		0		0.000	
Fitting	0		0		1,005.023		1,005.023	
Administration	________	(28,670.000)	4,353.000	(62,133.000)	394.091	(6,6692.148)	394.091	(34,872.748)
Distribution		38,140.000		31,568.000		473.253		38,613.252
UPCI and GIT		–						12,000.000
Exchange Loss								50,613.252
Managers								
Commission								
Net Profit								
Profit and Loss								
b/f								
Profit and Loss								
c/f								

Balance Sheet

	Head office		Branch		Branch		Combined	
	KSh. „000"	KSh. „000"	Zm„000"	Zm.„000"	KSh.„000"	KSh.„000"	KSh.„000"	KSh. „000"
Non Current Assets								
Premises								
Fixtures & Fittings								
Less Depreciation		45,000.000						45,000.000
Branch Current		16,000.000		94,500.000		9,000.000		25,000.000
Accts								
Less UPCs		(8,000.000)		(9,450.000)		(900.000)		(8,900.000)
		53,000.000		85,050.000		8,100.000		61,100.000
Current Assets								
Stock – at warehouse								
- in transit	14,659.252							
Debtors	(240.000)	14,169.252						
Bank balance		67,169.252						
Cash in transit								
Cash in hand								
Current liabilities	28,500.000		19,775.000		2,050.000		30,274.583	
Creditors	1,000.000						1,000.000	
Managers	17,550.000		35,100.000		2,925.000		20,475.000	
Commission								
	9,200.000		27,084.000		2,257.000		11,457.000	
Net Assets								
	464.000						464.000	
Share capital								
Reserves	980.000		8,598.000		716.500		1,696.500	
	57,694.000		90,557.000		7,948.500		65,367.083	
Profit&Loss Account								
Head office current	4,500.000		12,336.000		1,028.000		5,528.000	
account			4,353.000		361.250		361.250	
	(4,500.000)	53,194.000	(16,689.000)	73,868.000	(1,390.750)	6,559.250	(5,890.750)	59,513.25
		120,613.252		158,918.000		14,659.250		120,163.250
		50,000.00						50,000.000
		20,000.00						20,000.000
		50,613.252						50,613.252
				158,918.000		14,659.250		
		120,613.252		158,918.000		14,659.250		120,163.250

Workings

Translated Trial Balance

	Branch Zm. „000"	Zm. „000"	Rate	Branch KSh. „000"	KSh. „000"
Fixtures and fittings	94,500.000		1/10.5	9,000.000	
Debtors	35,100.000		1/12	2,925.000	
Creditors		12,336.000	1/12		1,028.000
Bank	27,084.000		1/12	2,257.000	
Cash	8,598.000		1/12	716.500	
Sales		277,233.000	1/11		250,203.000
Purchases	48,807.000		1/11	4,437.000	
Goods from Head office	156,500.000		1/10	15,650.000	
Head office current account		129,350.000	ACT		14,186.000
Administration expenses	28,514.600		1/11	2,592.236	
Distribution expenses	19,815.400		1/11	1,801.400	
Commission expenses	4,353.000		1/11	394.091	
Commission accrued		4,353.000	1/12		361.250
Depreciated Fixtures	9,450.000		1/10.5	900.000	
Depreciated Provision		9,450.000	1/10.5		900.000
Closing Stock-Ex. Kenya	12,000.000		1/10	1,200.000	
-Local	9,775.000		1/11.5	850	
Closing Sd-Ex. Kenya		12,000.000	1/10		1,200.000
-Local		9,775.000	1/10.5		850
Exchange loss balance fig)				1,005.023	
	454,497.000	454,497.000		43,728.250	43,728.250

Books of Head Office
Branch Current Account

	KSh. „000"		KSh. „000"
Balance b/d	15,900.00	Goods in transit	1,250.00
		Cash in transit	464.00
		Balance c/d	14,186.00
	15,900.00		15,900.00

Managers Commission

Cost of sales relating to goods from head office

	Zm. „000"
Goods from Head office	156,500.000
Less Closing Stock	12,000.000)
	144,500.000
Mark up of 50%	72,250.000
	216,750.000
Commission at 2%	4,335.000

QUESTION FOUR

WORKINGS

1. Determination of group structure

Control in Lenga $= \frac{4,500}{15,000} \times 100\% = 30\%$ (Associate)

Control in Tera $= \frac{15,000}{20,000} \times 100\%$ 75%(Subsidiary)

2. Unrealized profit on stock

	%		Sh. "000"
Buying price	100		32,000
Margin	25		8,000
Selling price	125		40,000
Treatment: Dr Holding co.	75% x 8,000	= 6,000	
Dr MI	25% x 8,000	= 2,000	
Cr group stock			8,000

3. Premium on acquisition of associate.

	Sh. "000"	Sh. "000"
Cost of investment		152,000
Share of associate equity		
Ordinary share capital	300,000	
Share premium	24,000	
Retained (218 – 102)	116,000	
30% x 440,000		132,000
		20,000

Amortization per annum $\frac{20,000}{2} = 4,000$

INVESTMENT IN ASSOCIATE

	Sh."000"		Sh."000"
Cost of investment	152,000	Premium Amortization	4,000
Share of post acquisition profit	21,600	Balance to CBS	
	173,600		173,600

4. Analysis of Tera

COST OF CONTROL

	Sh."000"		Sh."000"
Cost of investment	716,000	Share of Equity	
		OSC (75% x 400,000)	300,000
		Capital reserve (75% x 56,000)	42,000
		Profits 75% (288 – 128)	120,000
		¼ - 1/7) 75% x 3/12 (128 – 40)	16,500
		Pre-acquisition dividend (75% x 40 x ¾)	7,500
		Revaluation reserve (75% x 240,000)	180,000
		Goodwill	50,000
	716,000		716,000

Goodwill amortization C/D = $\frac{50,000}{5}$ x 9/12 = 7,500

5. **GROUP RETAINED EARNINGS A/C**

	Sh."000"		Sh."000"
Cost of control	136,500	Balance b/d (Mega) (786 –200)	586,000
(120,000 + 16,500)		Tera Ltd (288 – 10% x 400)	248,000
MI (25% x 248,000)	62,00	Associate (investment)	
UPCS	6,000	Share of post acquisition	21,600
Depreciation adjustment		Share of dividends: subsidiary	
(180,000 x 10%)	18,000	(75% x 40,000 x 9/12)	22,500
Goodwill amortization	7,500	Associate (30% x 30,000)	9,000
Premium	400		
To CBS	653,100		
	887,100		887,100

6. **MINORITY INTEREST**

	Sh."000"		Sh."000"
UPCS	2,000	OSC (25%x 400)	100,000
To CBS	174,000	Capital Reserves (25% x 56)	14,000
		Retained profit 25% (288 – 40)	62,000
	176,000		176,000

7. **PLANT & MACHINERY**

Mega (1,375,000 – 521,800)	853,200
Tera (350,600 – 124,600)	225,600
Share of revaluation (75% x 240)	180,000
Depreciation in revaluation	(18,000)
	1,240,600

MEGA LTD & SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS AT 31.03.02

	Sh."000"	Sh."000"
Non Current Assets		
Property (720 + 200)		920,000
Plant & Machinery		1,240,600
Goodwill		42,500
Investment in associate		169,600
		2,372,700
Current Assets		
Stock (380 +360.6 – 8)		
Debtors (374.8 + 125)	732,600	
Dividends Receivable	499,800	
Cash in Transit	9,000	
Bank	12,000	
	40,000	1,293,400
		366,6100
Financed by:		
Share capital		1,000,000
Share premium		200,000
Capital Reserve		300,000
Retained Earnings		653,100
		215,3100
MI: Non current liability		174,000
		2,327,100
Current liabilities		
Creditors 590 + 152)	742,000	
Tax (190 + 103)	293,000	
Dividends proposed (Mega) (20% x 2M	200,000	
MI share dividend (25% x 40,000)	10,000	
Bank overdraft	94,000	
		1,339,000
TOTAL EQUITY AND LIABILITIES		366,6100

QUESTION FIVE

(a) **BENEFICIARIES ACCUMULATION A/C**

	HUYU Sh.000	HAWA Sh.000	HAO Sh.000		HUYU Sh.000	WALE Sh.000	HAO Sh.000
Maintenance	154,000	162,000	188,000	Balance b/d	41,400	207,900	69,300
Distribution A/C				Capital income (1:1:1)			
Bal c/d	553,472	267,202	54,066	Acc. Income	148,500	148,500	148,500
				Revaluation gain	74,714	375,520	12,506
					70,258	35,282	11,760
	707,472	429,202	242,066		707,472	429,202	242,066

WORKINGS:

1. Distribution of accumulation income

Huyu $\frac{414,000}{691,200}$ x 124,740 = 74,714

Wale $\frac{207,900}{691,200}$ x 124,740 = 37,520

Hao $\frac{69,300}{691,200}$ x 124,740 = 12,506

2. Revaluation gains / Trust

	Initial MPs Sh	New MPs Sh	Difference Sh	No. of shares Sh	Gain to Acc. Sh
Fimbo Ltd	90	120	30	9,600	288,000
Lima Ltd	120	160	40	12,600	504,000
Peva Ltd	120	140	20	13,200	264,000
Total					1,056,000

3. Revaluation gains /Accumulation

140 x5, 775 – 691,200 = 117,300

Distribution of the revaluation gains

Huyu $\frac{414,000}{691,200}$x117,300 = 70,258

Wale $\frac{207,900}{691,200}$x117,300 = 35,282

Hao $\frac{69,300}{691,200}$x117,300 = 11,760

TRUST CAPITAL A/C

	Sh.		Sh.
Distribution 1/3	1,672,000	Bal b/d	3,960,000
Bal c/d 2/3	3,344,000	Revaluation gain	1,056,000
	5,016,000		5,016,000

(b) **DISTRIBUTION STATEMENT A/C**

	Sh.		Sh.
10,000 shares in Lima Ltd	1,600,000	Trust capital	1,672,000
600 shares in Fimbo @ Sh.120	72,000		
	1,672,000		1,672,000
Cash	64,444	Accumulation A/c	553,472
3493 shares in Pewa @ Sh.140	489,028		
	553,472		553,472

DECEMBER 2010

QUESTION ONE

(a) **STATEMENT OF DISTRIBUTION**
USING MAXIMUM POSSIBLE LOSS METHOD

	Total Sh."000"	Emojong Sh."000"	Barmoi Sh."000"	Kimani Sh."000"
Capital a/c	25,000	12,500	7,500	5,000
Current a/c	8,750	5,000	3,750	-
	33,250	17,500	11,250	5,000
Cash available (W1)	(12,925)			
Maximum possible loss	20,825	(8,330)	(8,330)	(4,165)
1st Distribution	12,925	9,170	2,920	835
capital balance	20,825	8,330	8,330	4,165
cash available	(8,500)			
maximum possible loss	12,325	(4,930)	(4,930)	(2,465)
2nd Distribution	6,500	3,400	3,400	1,700
capital balance	12,325	4,930	4,930	2,465
cash available	(9,800)			
maximum possible loss	2,125	(1,010)	(1,010)	(505)
3rd Distribution (W2)	9,800	3,920	3,920	1,960
Total distribution	31,225	16,490	10,240	4,495

(b) **Realisation A/c**

	Sh.			Sh.
Goodwill	12,500	CB: June		7,500
Buildings	18,750	July		31,250
Plant & Machinery	9,650	August		8,500
Fixtures	2,125	October		9,750
Motor vehicles	1,000	Discount received		125
Stock	8,000	Capital: E	1,010	
Debtors	7,375	B	1,010	
Dissolution expenses	250	K	505	2,525
	59,650			59,650

CASH & BANK A/C

	Sh.			Sh.
Bal b/d	20	Bal b/d		16,045
Realisation:		Creditors		7,000
June	7,520	Dissolution expenses		250
July	31,250	Loan		2,500
August	8,500	Capital: E	1,010	
October	9,750	B	1,010	
		K	505	31,225
	57,020			57,020

(c) **CAPITAL A/CS**

	E Sh."000"	B Sh."000"	K Sh."000"		E Sh."000"	B Sh."000"	K Sh."000"
Realisation	1,010	1,010	505	Bal b/d	12,500	7,500	5,000
CB	16,490	10,240	4,495	Current a/c	5,000	3,750	-
	17,500	11,250	5,000		17,500	11,250	5,000

W1:

	Sh.	Sh.
Bal b/d		20
June Realisation		7,500
July Realisation		31,250
		38,770
Creditors	7,125	
Discount received	(125)	
Bank overdraft	16,045	
Loan	2,500	25,545
		12,925

W2

	Shs.
Given	9,750
	50
	9,800

QUESTION TWO

TRADERS LTD
TRADING, PROFIT & LOSS A/C FOR THE YEAR ENDED 30.06.02

	HEAD OFFICE		BRANCH		COMBINED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		6,400		4,100		10,500
GSTB		4,620		-		-
		11,020		4,100		10,500
Cost of Sales						
Purchases	9,847.5		-		9,847.5	
Cost of modification	252.5		-		252.5	
Goods received by branch	-		4,400		-	
Goods lost	-		(88)		(80)	
Closing stock (W1)	(780)	(9,320)	(704)	(3,608)	(1,620)	(8,400)
Gross profit		1,700		492		2,100
Less Expenses						
Lost goods	-		88		80	
Provision for unrealized profit	84		0		0	
Selling and general expenses	945	(1029)	106	(194)	1,051	(1,131)
Net Profit		671		298		969

WORKINGS

1. Closing stock

(a) Head office

	Sh."000"
Purchases	9,847.5
Unmodified goods	(500)
	9,347.5
Less: GSTB $\left(\frac{100}{110} \times 46200\right)$	(4,200)
Less: Sales by head office: $\left(\frac{100}{125} \times 6400\right)$	(5,120)
Modification cost	252.5
	280

	Add Unmodified stock	500
		780
(b)	Branch	Sh."000"
	Goods received	4,400
	Cost of sales	(3,608)
	Stock lost at invoice $\left(\frac{100}{125} x100\right) x \frac{110}{100}$	(88)
		704
(c)	Combined	Sh."000"
	Head office	780
	Branch $\left(\frac{100}{110} x704\right)$	640
	Goods in transit $\left(\frac{100}{110} x220\right)$	200
		1,620

TRADERS LTD
BALANCE SHEET AS AT 30.06.02

	HEAD OFFICE		BRANCH		COMBINED	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non current assets						
Branch Current account	1,605.5					
Less UPCI at the branch	(64)	1,541.5				
Current Assets						
Stock	780		704		1,420	
Goods in Transit	200		-		200	
Debtors	1,548		568		2,116	
Cash in transit	421.5		-		421.5	
Bank	760	3,709.5	387.5	1,659.5	1,147.5	5,305
		5,251		1,659.5		5,305
EQUITY AND LIABILITIES						
Capital		1,550				1,550
Add net profit		969				969
		2,519				2,519
Less drawings		(275)				(275)
		2,244				2,244
Head office current a/c				1,605.5		
Current liabilities						
Creditors		3,007		54		3,061
		5,251		1659.5		5305

BRANCH CURRENT A/C

	Sh.		Sh.
Bal b/d	1,949	Goods in transit	220
Profit	298	Cash in transit	421.5
		Bal c/d	1,605.5
	2,247		2,247

HEAD OFFICE CURRENT A/C

	Sh.		Sh.
Bal c/d	1,605.5	Bal b/d	1,307.5
		Profit	298
	1,605.5		1,605.5

QUESTION THREE

(a) **INVESTMENT IN ASSOCIATE ADJUSTED**

	Sh.		Sh.
Cost of investment	56,000	Premium amortisation	3,000
Share of past acquisition profit 25% x (100,000 – 88,000)	3,000	Preacquisition dividend (25% x 4m)	1,000
		To consolidated balance sheet	55
	59,000		59,000

G LTD & ITS SUBSIDIARIES
CONSOLIDATED PROFIT & LOSS A/C FOR YEAR ENDED 30.06.02

	Sh.	Sh.
Turnover		3,300,000
Operating expenses		(2,924,000)
Operating profit (Less UPCI)		370,000
Share of B"s profit after tax (30% 125,000)		37,500
Dividend due from C Ltd (15% x 100,000)		15,000
Profit before tax		422,500
Taxation:		(141,000)
Profit after tax		281,500
Profit attributable to ordinary s/holders		260,500
Profit attributable to Minority interest		21,000
		281,500

STATEMENT OF CAHNGES IN EQUITY(EXTRACT)

	Ordinary share capital Sh."000"	Retained Profits Sh."000"	TOTAL Sh."000"	Minority Interest Sh."000"	Total share holder"s fundsl Sh."000"
Bal as at 30.6.02		450000			
Profit for year		260500			
Dividends:					
Interim		132000			
Final		(132000)			
Bal as at 30.6.02		578500			

Workings: **Minority Interest**

Preference dividends	=	9% x 100,000	=9,000
25%(75,000 – 9,000)	=	16,500	
Share of preference dividends	=	50% x 9,000	=4,500
Total minority interest	=	4,500 + 16,500	=21,000

TAKE NOTE

In this question, goodwill arising from consolidation has been amortized over its useful life.however, under the new **IFRS 3**(Business combination), amortization of goodwill is prohibited and such amortization can only be done if the examiner requires so.

Under **IFRS 3**,the following treatment should be adopted for goodwill,
If goodwill is positive, then the amount should be shown in the balance sheet without amortization. Though if the management feels that there is loss of value then this loss known as impairment loss is charged to the profit and loss account and in consolidation the following entries should be passed:

Dr: Group Retained Profit.
Cr: Cost of control with the impairment loss.
Goodwill will now be shown at the new impairment value in the balance sheet.

If goodwill is negative then the standard requires that it should be recognized as income immediately and the following entries will be passed;
Dr: cost of control.
Cr: Group Retained Profit with the full amount of negative goodwill..Therefore, there will be no goodwill appearing in the consolidated

QUESTION FOUR

(a) **Powers of a liquidator**

Under section 241 of the Companies Act the liquidator has some powers some of which are exercisable with the consent of the court or a committee of inspection while others are exercisable without consent.

Powers exercisable with consent

- To blame or defend any action or other legal proceedings in the name and on behalf of the company.
- To carry on the business of the company in so far as may be necessary for beneficial winding up.
- To appoint an advocate to assist in the performance of his duties
- To pay any class of creditors in full
- To make any compromises or arrangement with creditors
- To compromise all calls, liabilities to calls depts. And other liabilities.

Powers exercisable without consent

- To sell any movable or immovable properties of the company
- To execute deeds and other documents in the name of the company and on its behalf
- To prove rank and claim in the bankruptcy or insolvency of a contributory
- To draw, accept or endorse any of exchange, a promissory note in the name of a company.
- Raise money on the security of the company"s assets
- Appoint an agent to do business which he can not do himself
- Do all such other things as are necessary for the winding up of a company and distributing its assets.

(b) **Hasara Ltd**
Liquidators Statement of Account

	Sh.		Sh.
		Cost & charges (W2)	625
Sales of pledged assets		Preferential creditors (W1)	504
Freehold property	12,500	Floating charge – Debentures	10,000
Bank overdraft	(3,750)	- Interest	500
			10,500
Sale of unpledged assets		Unsecured creditors (11,250 – 540)	10,746
Plant and machinery	2,000	Preferential share holders:	
Stock	6,250	Capital	5,000
Debtors	12,250	Dividend	1,000
Cash	125	(10% x 5000 x 2)	6,000
Calls made (150 x 10,000) (W3)	1,500	Ordinary shareholders (25,000 x 100)	2,500
	30,875		30,875

WORKINGS

1. **Preferential creditors**:

Rates 6 months to 31.10.02	125
Managers salary (max)	4
	129
Wages for 15 employees	50
PAYE	325
	504

2. **Cost & charges**:

Cost & charges:	125
Liquidation expenses	500
Liquidator"s remuneration	625

3. **Determination of calls** (if any)

Determination of calls (if any)	1,000
Calls available	2,500
Notional calls (250 x 10,000)	3,500
	35
No. of shares (25 + 10)	3,500 = 100
Notional distribution	35
Calls made	250 – 100 = 150

QUESTION FIVE

(b) (i) **Wafanyakazi retirement benefit Scheme**
Statement of changes in net assets for the year ended 31 October 2002

	Sh.	Sh.
Contributions received		
From employer: Normal	18,240	36,480
From members: Normal	4,560	22,800
Additional voluntary		
Transfer in		
From other sources (individual transfers in)		3,150
Investment income		47,400
		109,830
Benefits payable		
Pensions	7,640	
Commutations of pensions and lumpsum benefits	4,820	
Payments on accounts of leavers: individual transfer out	1,860	(14,320)
		95,510
Changes in market value of investments		(22,640)
		72,870
Payments: Administration expenses		(2,840)
		70,030

Wafanyakazi retirement benefit Scheme
Statement of net assets as at 31 October 2002

	Sh.	Sh.
Investment assets		
Fixed interest securities		
Kenya Government securities		263,605
Equity investments		
Quoted	87,835	
Unquoted	19,990	107,825
Cash and demand deposits		23,460
		394,890
Fixed Assets:		
Freehold property		132,320
		527,210
Current Assets		
Contributions due within 30 days	4,940	
Current liabilities		
Unpaid benefits	(320)	
Accrued expenses	(240)	
	(560)	4,380
		531,590
Accumulated fund as at 01.11.01		461,560
Net change for the year		70,030
		531,590

JUNE 2011

QUESTION ONE

Income statement for the year ended 31 March 2003

		Sh. Million
Turnover (net of VAT)		884
Cost of sales		(601)
Gross profit		283
Other incomes		6
		289
Distribution costs	109	
Administrative expenses	99	
Other expenses	3	
Finance costs	27	(238)
Profit before taxation		51
Income tax expense		(17)
Profit for the period		34

Statement of changes in Equity for the year ended 31 March 2003

	Share Capital Sh. Million	Share Premium Sh. Million	Revaluation Reserve Sh. Million	Retained Earnings Sh. Million	Total Sh. Million
At 1 April 2002	450	188	110	95	843
Net profit				34	34
Excess depreciation			(4)	4	-
At 31 March 2003	450	188	106	133	877

Athi River Cement Limited
Balance Sheet as at 31 March 2003

	Sh.Million	Total Sh.Million
Non current assets		
Property, plant and equipment (4 and 9)		848
Prepaid operating lease rentals:		60
Deferred expenditure:		15
		923
Current assets:		
Inventories:	186	
Trade and other receivables	194	
Cash and bank balances	5	385
Total Assets		1,308
Equity and liabilities		
Capital and reserves		
Share capital		450
Share premium		188
Revaluation reserve		106
Retained earnings		133
		877
Non current liabilities:		
Borrowings	50	
Finance leases payable	5	
Deferred taxation	151	206
Current liabilities:		
Trade and other payables	160	
Finance leases payable	2	
Borrowings: Bank overdraft	53	
Unclaimed dividends	2	
Compensating tax payable	8	225
Total equity and liabilities		1,308

Notes to the accounts

Note 1 Accounting policies

These financial statements have been prepared under the historical cost basis of accounting, which is modified to accommodate the revaluation of certain properties and they comply with the applicable IFRSs.

Property plant and equipment is shown at cost or revalued amount less the total accumultaed depreciation, which is based on the estimated useful life of the assets.

Inventory has been stated at the lower of cost and net relisable value.

Note 2 Profit before tax

The profit before tax has been arrived at after charging the following expenses

		Sh m	Sh.m
Depreciation of PPE			58
Amortisation of Intangibles			7
Directors emoluments	- Fees	2	
	- Others	12	14
Other staff costs	- Wages and salaries	81	
	- Social security costs	2	
	- Terminal benefits	3	86
Auditors remunaeration			2
Loss on dsposal of motor vehicles			3

Note 3 Taxation

Corporation tax is based on the adjusted profits for tax purpose at a corporation tax rate of 30%

Note 4 Inventories

Inventoires comprise of the following items

	Sh m
Raw materials	48
Work in progress	29
Finished goods	51
Stores and spares	58
	186

QUESTION TWO

(a) **Kioko, Licha and Mengo**
Partnership Realisation Account

		Sh."000"			Sh."000"
Land account		2,000	Depreciation accounts:		
Buildings account		3,000	Buildings		990
Plant & machinery account		12,000	Plant and machinery		4,500
Motor vehicles account		4,000	Motor vehicles		3,500
Inventory account		5,200	Trade payables		5,100
Trade Receivables		4,100	Partners capital accounts		
Cash account		1,280	Kioko	400	
Additional cash		3,220	Licha	260	
Profit on realization:			Mengo	205	865
Kioko	3,665		Kioko"s account:		
Licha	3,665		Debtor		840
Mengo	3,665	10,995	Purchaser (Kiligo Ltd) a/c		30,000
		45,795			45,795

(b)

Partnership Capital Accounts

	Kioko	Licha	Mengo			Kioko	Licha	Mengo
2003	Sh.000	Sh000	Sh.000	2002		Sh.000	Sh.000	Sh.000
March 31 drawings	1,440	960	1,200	April 1 Balance b/f		3,000	2,000	4,000
March 31 Realisation A/c: Cars	400	260	205	April 1 Current A/cs		3,190	2,000	1,500
March 31 Realisation A/c: debtor	840			2003 March 31 P & L Appropriation A/c:				
Purchaser A/c	10,200	8,400	11,400	Interest on capital	1,800	600	400	800
				Share of profit	3,600	1,200	1,200	1,200
					5,400			
				March 31 Realisation A/c Profit		3,665	3,665	3,665
				Cash book	3,220	1,225	355	1,640
	12,880	9,620	12,805			12,880	9,620	12,805

(c)

Kiligo Limited

Balance Shet as at 1 April 2003

	Sh."000"	Sh."000"
Non-current assets		
Property, plant and equipment at cost:		
Freehold land		5,000
Buildings		4,000
Plant and machinery		10,000
		19,000
Intangible asset: Goodwill cost		2,400
		21,400
Current assets:		
Inventory	5,700	
Trade receivables	2,900	
Cash at bank	4,500	
		13,100
Total assets		34500
EQUITY AND LIABILITIES		
Share capital: authorized, issued and fully paid:		
Sh.2 million share sof Sh.10		20,000
Share premium		10,000
		30,000
Current liabilities:		
Trade payables	4,500	4,500
TOTAL EQUITY AND LIABILITIES		34500

Purchaser Account

	Sh.			Sh.
Realisation account	30,000	Partners capital accounts:		Shares
		Kioko	10,200	680,000
		Licha	8,400	560,000
		Mengo	11,400	760,000
	30,000		30,000	2,000,000

Partnership Balance Sheet at 31 March 2003 before cash introduced

	Sh."000"	Sh."000"
PPM: 21,000 – 8,990		12,010
Current assets:		
Inventory	5,200	
Trade receivables	4,100	
CB (4.5 – 3.22)	1,280	
	10,580	
Current liabilities: Trade payables	(5,100)	5,480
		17,490
Capital: Closing	17,490	
Opening	15,690	1,800
Add drawings		3,600
Net profit for the year		5,400

QUESTION THREE

	Mapito Limited head office journal	Dr. Sh.000	Cr. Sh.000
1.	Mombasa branch account	846	
	Bamburi Beach Hotel account		846
	To record the receipt of the Amount due for BBH		
2.	Mombasa branch current account	228	
	Premium account		228
	To cancel the debit that was wrongly charged against head office premium		
3.			
4			
5.	Mombasa branch equipment account	960	
	Mombasa branch current account		960
	To record the air-conditioning units in the Mombasa branch		
	Mombasa branch current account	96	
	Mombasa branch equipment depreciation account		96
	To record the depreciation charge for the year to 31 March 2003		
6.(a)	Mombasa branch current account	300	
	Mombasa branch motor car depreciation account		300
	To record the depreciation charge for the year ended 31 March 2003.		
(b)	Mombasa branch motor car depreciated account	1,200	
	Mombasa branch motor car a/c		1,200
	Mombasa branch current account – amount due	280	
	Mombasa branch current account – Profit on sale		280
	To record the disposal of the Momabsa Manager"s car		
7.			
8.	Claims paid account	1,100	
	Mombasa branch current account		1,100

	Mombasa Branch Journal	Dr. Sh.000	Cr. Sh.000
1.	Fire premium account	846	
	Head office current account		846
	To record the branch"s liability to the head office for the cash received		
2.	Premium account	228	
	Likoni Ferries Ltd. account		228
	To record the return premium due to likoni Ferries Ltd.		
3.	Bank account	650	
	Head office current account		650
	To record the fact that the cheque has gone stale/been stopped		
4	Debtors – Rainbow Travels Ltd. account	68	
	Travel expenses account	68	
	Head office current account		136
	To record the amount as a branch expense and to show Rainbow Travels as a debtor		
5.	Head office current account	960	
	Office repairs account		960
	To transfer the air-conditioning units in the head office ledger		
	Depreciation account (charge)	96	
	Head office current account		96
	To record the depreciation charge for the year.		
6.(a)	Depreciation on motor car account	300	
	Head office current account		300
	To record the depreciation charge on the motor car for the year		
(b)	Manager"s loan account	280	
	Manager"s account	2	
	Bank account		282
	To record the dishonouring of the cheque by the bank		
7.	Manager"s account	280	
	Profit on disposal of motor car account		280
	To record the profit made by the branch on the sale of the car.		
	Depreciation on PPE account	670	
	Head office current account		670
	To record the depreciation charge on PPE for the year ended 31 March 2003		
8.	Head office current account	1,100	
	Claims paid account		1,100

To record the payment of the claim raised by China Roads Limited	To Transfer the claim paid to China Roads Limited to the Headoffice

Note:

No entry is required in respect of the outstanding claim, raised by China Roads Limited brought forward at the beginning of the year – it will be taken to the revenue account when the books are closed, and deducted from the sum of "claims paid in the year" and "claims outstanding carried forward".

QUESTION FOUR

The Voice of the Nation Limited
Consolidated Cash Flow Statement for the year ended 30 April 2003

Operating activities	**Sh.million**	**Sh.million**
Profit before tax	417	
Adjustments for:		
Depreciation	265	
Profit on sale of property, plant and equipment	(17)	
Amortisation of goodwill	13	
Interest paid	8	
Share of result of associate	(50)	
	636	
Changes in working capital:		
Increase in inventory	(98)	
Decrease in receivables	16	
Increase in payables	131	
Cash generated from operations	685	
Interest paid	(8)	
Tax paid	(120	
Net cash from operating activities		557
Investing activities		
Purchase of property, plant and equipment	(163)	
Proceeds from sale of property, plant and equipment	70	
Dividends received	18	
Net cash used in investing activities		(75)
Financing activities		
Borrowings repaid	(90)	
Dividends paid:		
To members of holding	(150)	
To minority interest	(40)	
Net cash used in financing		(280)
Increase in cash and cash equivalents		202
Cash and cash equivalents at start::		
Cash and cash equivalents	71	
Bank overdraft	(188)	(117)
Cash and cash equivalents at end:		
Cash and cash equivalents	93	
Bank overdraft	(8)	
		85

WORKINGS

PPE ACCOUNT

B/F 2	2,134	Depreciation	20
Reval.	72	Disp.	100
ML	48		
	120		
CB	163		2,297
	2,417		2,417

Depreciatn

PPE	20	B/f	733
Disposal	47	P&L	265
C/f	931		-
	998		998

Revaluation Reserve

B/f	188
PPE	72
C/f	260

Taxation

CB	120	B/f C	16
C/f C	22	D	123
D	107	P & L	110
	249		249

Disposal Account

PPE	100	Deprec.	47
P&L	17	C.B	70
	117		117

Minority interest

		B/f	204
CB	40	PPE	48
C/d	240	Rev. Res	28
	280		280

Revenue reserve

Tax G	110	B/f	725
Assoc.	15	PBT	417
Minority	28		
Div. paid	150		
C/f	839		
	1,142		1,142

Investment in Associate

B/f	246	Tax	15
P & L	50	CB	15
		C/f	263
	296		296

QUESTION FIVE

(a)

Trust Cash Account

2002		Income Sh."000"	F1 Sh."000"	WR Sh."000"	SR Sh."000"	2002		Income Sh."000"	F1 Sh."000"	WR Sh."000"	SR Sh."000"
Apr.1	Bal. b/f		200			Jun.30	Income A/c Distrib.	200			
Jun.30	Income A/c	200				Nov.30	Contra				4,500
Sep.30	Income A/c	300				Nov.30	12% Kenya stock			6,650	
Nov.30	E.A.B. Ltd			4,400		2003					
Nov.30	K.E Ltd.				4,500	Feb.28	Inv. In ICDCI shares		2,450		
Nov.30	Contra		2,250	2,250		Mar.31	Inc. A/c expenses	120			
Dec.31	Income A/c	180				Mar.31	Inc. A/c – K 201				
Dec.31	Income A/c	42				Mar.31	Inc. A/c – M 201	402			
		722	2,450	6,650	4,500			722	2,450	6,650	4,500

Income Account

2002		Sh."000"	2002		Sh."000"
June 30	CB: School fees paid for K & M	200	June 30	CB: Interest on 10% Kenya Stock	200
2003			Sep. 30	CB: Final dividend on EABL shares	300
Mar. 31	CB: Expenses for the year paid	120	Dec. 31	CB: Interest on 9% Kenya Stock	180
Mar. 31	Distribution to K	201	Dec. 31	CB: Interest on Bank Deposit.	42
Mar. 31	Distribution to M	201			
		722			722

Trust Capital Account

2002		FIF Sh."000"	WRF Sh."000"	SRF Sh."000"	2002		FIF Sh."000"	WRF Sh."000"	SRF Sh."000"
					April 1	Bal b/f	4,000	4,000	3,000
Nov, 30	Contra			4,500	Nov. 30	Inv. In EAB Ltd Shares: Surplus		400	
2003					Nov. 30	Inv. In Kilimanjaro Ent: surplus			1,500
Mar 31	Bal. c/d	6,250	6,650		Nov. 30	Contr	2,250	2,250	-
		6,250	6,650	4,500			6,250	6,650	4,500
					2003 Apr.1	Bal b/d	6,250	6,650	

(b)

Trust Balance Sheet
As at 31 March 2003

		Sh."000"	Sh."000"
Fixed interest investment	Sh.2 million 10% Kenya stock 2007	2,000	
	Sh.2 million 9% Kenya stock 2006	1,800	
	Sh.2 million 12% Kenya stock 2008	2,450	
			6,250
Wider range investments	Sh.4.2 million 12% Kenya stock 2008	4,200	
	61,250 Sh.10 Ordinary shares in ICDCI ltd	2,450	
			6,650
			12,900
Trust capital:			
Fixed interst fund			6,250
Wider range fund			6,650
			12,900

DECEMBER 2011

QUESTION ONE

(a) **Kijiko, Sahani and Mwiko**

Trading, Profit and Loss A/c for the year ended 30th September 2003

	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Turnover						3800
Less cost of sales						
Opening stock					510	
Purchases (2040 + 10)					2,050	
					2,560	
Less closing stock					(560)	2,000
Gross profit		660		1,140		1,800
Expenses						
Salaries (W2)	260		260		520	
Wages	190		190		380	
Rates & Lighting (W3)	73		73		146	
Professional charges	17		17		34	
General expenses	172		236		408	
Lease amortisation	8.2		8.2		16.4	
Depreciation:						
Motor vehicles	42		30		72	
Shop fittings	9		9		18	
Loan interest (Kijiko)	-	(771.2)	33	(856.2)	32.76	1,62.4
Net profit/(loss)		(111.2)		283.8		184.84
Interest on capital:						
K	15		-		15	
S	9		9		18	
M	-	(24)	3	(12))	3	36
Bal shared in PSR:		(135.2)		271.8		136.6
K	(81.12)		-		(81.12)	
S	(54.08)		181.2		127.12	
M	-	135.2	90.6	272.04	90.6	136.6
		-	-		-	-

Current Accounts

	Kijiko Sh."000"	Sahani Sh."000"	Mwiko Sh."000"		Kijiko Sh."000"	Sahani Sh."000"	Mwiko Sh."000"
Goodwill	-	600	300	Bal b/d	220	260	-
Drawings	60	40	20	Cash	-	-	300
Loss share	81.12	54.08	-	Goodwill	540	360	-
To loan a/c	633.88	-	-	Interest on capital	15	18	3
Bal c/d	-	125.12	73.60	Profit share	-	181.2	90.6
	775	819.36	393.68		775	819.36	393.68

Loan A/c

	Sh."000"		Sh."000"
Motor vehicle	60	Capital A/c	500
Cash	250	Current A/c	633.88
Bal c/d	856.88	Interest on loan	33
	1,173.84		1,173.84

Interest on loan = [(500 + 633.88) – (72 + 250)] x 8% x 6/12 = 32.955

Workings:

		Sh."000"
1.	Professional charges	
	As per TB	54
	Acquisition of leasehold premises	(20)
	Adjusted value	34
	Half yearly	17
2.	**Salaries**	
	As per TB	640
	Less Drawings by partners	(120)
	Adjusted	520
	Half yearly	260

3.	**Rates and lighting**	
	As per TB	168
	Less prepaid	(22)
		146
	Half yearly	73

Goodwill	Adjustments	Sh."000"		Sh."000"
Kijiki	(3/5 x 900)	540	(2/3 x 900)	600
Sahani	(2/5 x 900)	360	(1/3 x 900)	300
		900		(2/5 x 900)=360

(c)

Kijiko, Sahani and Mwiko
Balance Sheet as at 30.09.03

	Sh."000"	Sh."000"	Sh."000"
Non Current Assets			
Leasehold premises	820	16.4	803.6
Motor vehicles	300	192	108
Shop fittings	180	78	102
	1,300	286.4	1,013.6
Current Assets			
Stock		560	
Debtors		80	
Prepayment		22	
Bank		148	
			810
			1823.6
EQUITY AND LIABILITIES:			
Capital A/c:			
Sahani			300
Mwiko			100
			400
Current A/c			
Sahani			
Mwiko		125.12	
		73.6	198.72
Long term Liabilities			598.72
Loan (Kijiko)			
			856.88
			1,455.6
Current Liabilities			
Creditors		360	
Accruals: General expenses		8	368
TOTAL EQUITY AND LIABILITES			1823.6

QUESTION TWO

(b) Currently IAS 21 does not refer to the temporal method and closing rate method of translating results of the branch. It does not distinguish between a foreign entity and an entity that is intergral to the parent company. However the exchange rates applicable for branches will in most cases be

- Average rate for most profit and loss items,
- Closing rate for monetary items like accounts receivables and payables,
- Historical rate for property, plant and equipment and inventory,
- Actual exchange rate for remmitances from the branch to Head office,
- Average rate or special rate if given for goods from the headoffice to the branch,

Any foreign exchange currency differences will be dealt with in the profit and loss account either as an income or expense.

Trial balance (in Ksh)

	Ush."000"	Ush"000"	Rate	KSh."000"	KSh."000"
Freehold land & buildings	126,000		1/7	18,000	
Debtors/creditors	71,360	3,120	1/8	8,920	390
Sales		864,000	1/9		96,000
Cost of sales:					
Depreciation	25,200		1/7	3,600	
Other	694,800		1/9	77,200	
Provision for depreciation		113,400	1/7		16,200
Administrative costs	36,000		1/9	4,000	
Selling and distribution	57,600		1/9	6,400	
Stocks	23,040		1/8	2,880	
Machinery	252,000		1/7	36,000	
Remittances	544,000		N/A	59,980	
Bank balance	158,400		1/8	19,800	
Commission expense	2,394		1/9	266	
Commission accrued		2,394	1/8		300
Head office current a/c		1,007,880	N/A		120,200
Exchange gain			Bal fig		3,956
	191,434	191,434		237,046	237,046

- Commission expense is arrived at after charging the rate of 5% on net profit after charging the commission:

$$(864,000 - 720,000 - 36,000 - 57,600) \times \frac{5}{105} = 2,394$$

- Combined cost of sales is arrived at as follows:

$$\underset{\text{HO cost of sales}}{118,000} + \underset{\text{Branch cost of sales}}{80,000} - \underset{\text{Inter co.transfer}}{70,000} + \underset{\text{Unrealised profit}}{600} = 129,400$$

(c) **Amini Ltd**

Balance Sheet as at 31.10.03

	Head Office		Branch		Branch		Combined	
	Sh.000	Sh. 000	K.000	K.000	Sh.000	Sh.000	Sh.000	Sh.000
NonCurrent Asset								
Buildings		28,000		126,000		18,000		46,000
Machinery		9,000		138,600		19,800		28,000
		37,000		264,600		37,800		74,800
Branch Current A/c	68,710							
Less: UP	(600)	68,110		-		-		-
		105,110		264,600		37,800		74,800
Current Assets								
Stock	57,800		23,040		2,880		60,080	
Debtors	17,800		71,360		8,920		26,720	
Bank	9,200		158,400		19,800		29,000	
Cash in transit	3,980		-		-		3,980-	-
	88,780		252,800		31,600		119,780	
Current Liabilities								
Creditors	19,000		3,120		390		19,390	
Accrued commission	-		2,394		300		300	
	(19,000)		(5,514)		(690)		(10,690)	
Net Current Assets		69,780		247,286		30,910		100,090
		174,890		511,886		68,710		174,890
HO Current A/c				511,186		68,710		
Share capital		80,000						80,000
Retained profit		94,890						94,890
		174,890						174,890

(b) **Amini Ltd**

Trading, Profit and Loss A/c for the year ended 31.10.03

	Head Office		Branch		Branch		Combined	
	Sh."000	Sh."000"	K."000	K."000"	Sh."000	Sh."000"	Sh."000	Sh."000"
Sales		208,000		864,000		96,000		304,000
Goods sent to branch		70,000		-		-		-
		278,000		864,000		96,000		304,000
Cost of sales		118,000		720,000		80,800		129,400
Gross profit		160,000		144,000		15,200		174,600
Exchange gain		-		-		3,956		3,956
		160,000		144,000		19,156		178,556
Expenses								
Administrative	30,400		36,000		4,000		34,400	
Selling & distribution	46,600		57,600		6,400		53,000	
Commission	-		2,394		266		266	
Provision for UP	600	77,600	-	95,994	-	10,666	-	8,766
Net profit::Year		82,400		48,006		8,490		9,089
B/f								400
C/f								9,489

Books of Head Office

Branch Current A/c

	Sh."000"		Sh."000"
Bal c/d	120,200	Remittances	56,000
Profit	8,490	Cash in transit	3,980
		Bal c/d	68,710
	128,690		128,690

Books of Branch

Head Office Current A/c

	USh."000"	Sh."000"		Sh."000"	Sh."000"
Remittances	544,640	59,980	Bal b/d	1,008,520	120,200
Bal c/d	511,886	68,710	Profit	48,006	8,490
	1,056,526	128,690		1,056,526	128,690

QUESTION THREE

Rain Ltd and its subsidiaries
Consolidated Balance sheet as at 31

	Sh."000"	Sh."000"
Non Current Assets		
Tangible assets		22,000
Intangible assets: Goodwill (W2)		1,006
		23,006
Current Assets		
Stocks (2 + 1.2 + 1.6 – 0.05)	4,750	
Debtors (W6)	6,500	
Cash (2.7 + 1.4 + 1.14 + 0.2)	5,400	
		16650
		39656
EQUITY AND LIABILITIES		
Share capital		15,000
Sh.100 ordinary shares fully paid		7,780
General reserve (W5)		2,328
Profit/Loss A/c (W4) (300 + 2,028)		25,108
		6,048
Minority interest (W3)		31,156
Current liabilities:		
Creditors		8500
TOTAL EQUITY AND LIABILITIES		39,656

Workings

1. **Determination of group ownership structure**

	Storm Ltd Ordinary	Storm Ltd Preference		Thunder Ltd Ordinary
Rain Ltd:		1/6		25%
Direct	60%			33%
Indirect			(60% x 55%)	58%
Minority Interest	40%	5/6		42%

2. **Cost of Control**

	Sh."000"		Sh."000"
Investment in Storm:		Share of Storm equity	
Ordinary	3,400	Ordinary share capital (60% x 5000)	3,400
Preference	600	General reserves (60% x 1000)	600
Share of retained losses		Preference share capital (i/6x3,000)	500
(60% x 500)	300	Goodwill I	200
	4,300		4,300
Investment in Thunder		Share of Thunder equity	
(60% x 1,900) by Storm	1,140	Ordinary share capital (58%x2,000)	1,160
Rain spent in Thunder	1,000	Profit b/f (58% x 300)	174
		Goodwill II	806
	6,440		6,440

Total goodwill on consolidation = 806 + 200 = 1,006

3. **Minority Interest**

	Sh."000"		Sh."000"
Cost of shares in Thunder		Storm Ltd: Equity	
(40% x 1900)	760	Ordinary share capital (40% x 5000)	2,000
Storm Ltd Profit & Loss		Preference share capital (5/6 x 3000)	2,500
40% x 800)	320	General reserve (40% x 3000)	1,200
Consolidated balance sheet	6,048	Thunder Ltd: Equity	
		Ordinary share capital (42% x 2000)	840
		Preference share capital	-
		General reserve (42% x 1000)	420
		Thunder Ltd Profit & Loss	
		(42% x 400)	158
	7,128		7,128

4. **Group retained Earnings A/c**

		Sh."000"		Sh."000"
Rain Ltd			Bal b/d: Rain	2,500
UPCs (200/800 x 200)		50	Cost of control a/c	
Bal b/f		800	(60% x 500)	300
Thunder ltd:			Minority Interest A/c	
Cost of control a/c			(40% x 800)	320
25% x 300	75		Bal b/d: Thunder	400
33% x 300	99	174		
Minority interest				
(42% x 400)		168		
Consolidated balance sheet		2,328		
		3,520		3,520

5. **Consolidated General reserve**

	Sh."000"		Sh."000"
Storm Ltd: COC (60% x 1000)	600	Bal b/f	
MI (40% x 3000)	1,200	Rain	6,000
Thunder: MI (42% x 1,000)	420	Storm	3,000
Consolidated balance sheet	7,780	Thunder	1,000
	10,000		10,000

6. **Group Debtors A/c**

	Sh."000"		Sh."000"
Rain Ltd	4,800	Cash in transit (Thunder)	200
Storm Ltd	2,000	Group creditors: T – R	400
Thunder Ltd	800	R – S	300
		T – S	200
		To consolidated balance sheet	6,500
	7,600		7,600

7. **Group Creditors A/c**

	Sh."000"		Sh."000"
Group debtors	900	Rain Ltd	5,000
To consolidated balance sheet	8,500	Storm Ltd	2,600
		Thunder Ltd	1,800
	9,400		9,400

QUESTION FOUR

HASARA LTD
STATEMENT OF AFFAIRS AS AT 30.11.2003

	Sh."000"
Assets not specifically pledged	
Cash in hand	20
Debtors (8,510 + 110)	8,630
Stocks	18,760
Plant and machinery	14,000
Amounts receivable from calls (2,850 + 25% x 150)	2,887.5
	44,297.5

Assets specifically pledged

	Estimation realizable Values Sh."000"	Due to secured Creditors Sh."000"	Surplus carried to last column Sh."000"	
Freehold property	4,480	4,100	380	380
Estimated total assets available for preferential creditors,				
Bank overdraft secured by floating charge and unsecured creditors				44,677.5
Summary of Assets				
Gross realizable value of assets specifically pledged			4,480	
Other assets			44,297.5	
Gross assets			48,775	

Gross Liabilities Sh."000"			
	Liabilities		
4,100	Secured creditors		
398	Preferential creditors		(356)
			44,321.5
22,790	Bank overdraft secured by floating charge		(22,790.0)
			21,531.5
20,900	Unsecured creditors	20,900	
201	Trade creditors	243	
108	Contingent liability	108	(21,251)
48,497	**Estimated Surplus as regards creditors**		280.5
	Issued and called up capital 800,000 shares of Sh.20 each		18,000
	Estimated deficiency as regards members		17,719.5

DEFICIENCY ACCOUNT

	Sh."000"	Sh."000"
Net trading losses for the three years ended 30th November 2003 after charging:		(12,900)
Depreciation	2,380	
Debenture interest	600	
Directors" remuneration	1,800	
Estimated losses now written off:		
Goodwill	2,689	
Debtors	410	
Stock	420	
Plant and machinery	620	
Legal claim	108	
Calls in arrears not receivable (20,000 X sh.7.50 X 75%)	112.5	
Freehold property	460	(4,819.5)
		17,719.5

Preferential creditors

	Sh 000
Customs and Excise tax	200
Managers salary (max imum amount)	4
Wages of 3 workment (max 3 X 4000)	12
Rates	20
Taxes	120
	356

(a) The three certainties necessary in the creation of a trust are:

- Certainty of object: the object of a trust ought to be certain e.g "I bequeath my house No.68 to my wife:.
- Certainty of subject: the subject of a trust ought to be a certainty e.g "I bequeath my house No.68 to my son Denis".
- Certainty of amount. The amount in a trust should be stated in no uncertain terms e.g "I bequeath Ksh.100,000 to my son James:.

(b) (i) **Trust Capital**

	Sh."000"		Sh."000"
Distribution (½)	2,850	Bal b/d	5,200
Bal c/d	2,850	Revaluation gains	500
	5,700		5,700

Workings for Revaluation Gains

Capital	Initial MPS Sh.	Increased MPS Sh.	Increases Sh.	No. of shares Sh."000"	Gain Sh."000"
ABC Ltd	110	125	15	20	300
Mapingo Ltd	93⅓	100	6⅔	30	200
Total					500
Accumulation					
ABC	110	125	15	1	15
Mapingo Ltd	90	100	10	1	10
	191,434	191,434		237,046	237,046

(ii) **Accumulation A/c**

	Reuben Sh."000"	Levi Sh."000"		Reuben Sh."000"	Levi Sh."000"
Maintenance	30	20	Bal b/d	150	100
Distribution	188	-	Dividend income(Capital)	50	50
Bal c/d	-	142	Dividend income (Accum) (3:2)	3	2
			Revaluation gain:		
			ABC: (3:2)	9	6
			Mapengo:(3:2)	6	4
	218	162		218	162

(iii) **Distribution A/c**

	Sh."000"		Sh."000"
Capital investments:		Trust capital	2,850
10,000 ABC shares	1,250	Accumulation A/c	188
15,000 Mapingo shares	1,500		
Cash	100		
Accumulation investments			
600 Mapingo shares	60		
Cash	53		
	3,028		3,038

Cash A/c

		Sh."000"			Sh."000"
Bal b/d	200	50	Maintenance		50
Dividends (ABC) capital		100	Reuben distribution	100	53
Dividends (ABC)		5	Bal c/d	100	52
	200	105		200	105

Balance sheet as at 01.11.03

	Sh."000"	Sh."000"
Assets		
Capital investments:		
10,000 shares in ABC Ltd @Sh.125		1,250
15,000 shares in Mapingo Ltd @ Sh.100		1,500
		2,750
Accumulation Investment		
400 ABC shares @Sh.125	50	
400 Mapingo shares @ Sh.100	40	90
Cash: Capital	100	
Income	52	152
		2,992
Trust capital	2,850	
Accumulation a/c	142	
		2,992

Tutorial note: The last 2 accounts are not required by the examiner, they are illustrative.

JUNE 2012

QUESTION ONE

H Ltd and its subsidiary
Consolidated income statement for the year ended 31 December 2003

	Sh"000
Turnover (600000+400000-5000)	995,000
Profit before tax	378,000
Share of PAT in A ltd (30%*70,000)	21,000
	399,000
Taxation: group (60000+45000)	(105,000)
Profit after Tax	294,000
Profit attribuatable to Minority interest	(60,000)
Profit attributable to H Ltd	234000
Proposed dividends	(60,000)
Retained profit for the year	174,000
Retained profit b/f	40,000
Retained profit c/f	214,000

Statement of retained profit

	b/f Sh000	Year Sh000	c/f Sh000
H ltd	40,000	138,000	178,000
S ltd	0	27,000	27,000
A ltd	0	9,000	9,000
Group	40,000	174,000	214,000

Working	B/fSh000	Year Sh000	c/f Sh000
H ltd:as per A/Cs	40,000	80,000	120000
Dir. Receivable from S:OSC	-	36,000	36000
A :OSC	-	12,000	12000
Negative Goodwill		11,000	11,000
Unrealised profit on Inventory	-	(1,000)	(1000)
	40,000	138,000	178000
S ltd:As per A/Cs	60,000	45,000	105000
Less Pre acquisition	(60,000)	0	(60,000)
Post acquisition	0	45,000	45,000
Share of H ltd @60%	0	27,000	27,000
A ltd: as per A/Cs	50,000	30,000	80,000
Less Pre acquisition	(50,000)	0	(50,000)
Post acquisition	0	30,000	30,000
Share of H ltd @30%	0	9,000	9,000

H LTD AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003

	Sh"000	Sh"000
Non Current Assets:		
Property, plant and equipment (375+195-80-25-55)		410,000
Goodwill		-
Inv. In A ltd		82,000
		492,000
Current Assets:		
Inventory	174,000	
Debtors (80+65)	145,000	
Dividends due from minority Interest	12,000	
Cash at bank (75+50+24.8)	125,000	456,000
Total Assets		948,000
EQUITY AND LIABILITIES		
Share capital:		300,000
Share of Revaluation Reserve in Assoc.		18,000
		0
Retained profits		214,000
		544,000
Minority interest		112,000
Shareholders funds		644,000
Current liabilities:		
Creditors	115,000	
Taxation	105,000	
Proposed Dividends (60+(MI40%x60)	84,000	304,000
TOTAL EQUITY AND LIABILITIES		948,000

WORKING

COST OF CONTROL ACCOUNT (S ltd)

	Shm		Shm
Inv	105	OSC(60%*140)	84
		PSC(40%*50)	20
Goodwill to P&L	11	P&L(60%x(60-40)	12
	116		116

COST OF CONTROL ACCOUNT (A ltd) working A/C

Inv	55	OSC (30%x100)	30
		P&L (30%x50)	15
		Premium	10

Profit before tax

	Sh „m"
Profit before tax in H	200
Profit before Tax in S	180
Unrealised profit on closing invrntory	(1)
Negative goodwill	11
Preference dividend received from S by H	(12)
	378

-Note that under the current IFRS 3 Negative goodwill should be reported immediately as income when it arises.

-Note also that evevn though the examiner has stated that H Ltd has not yet accounted for its shate of dividends receivable from S Ltd and A Ltd; we have assumed that h ltd has already accounted for

Preference dividends which is included in the PBT. This is because the preference dividends are not shown as a current liability in the books of S Ltd. Which Means that it is either paid or the question has an error. Therefore the most logical assumption is that the subsidiary co has already paid the preference dividend by the balance sheet date.

-The bonus shares in most cases if it is paid out of the pre acquisition profits then it will not affect the computation of goodwill like in the above case. The dividend was paid nearly at the beginning of the year so it means that the pre acquisition profits will reduce by sh40 million and share capital increases by the same. However if the bonus shares are paid out of post acquisition retained profits then this will affect the computation of goodwill because we need the reserves at acquisition.. The approach is to use the reserves at acquisition but the bonus shares received by the holding company in the post acquisition period should be shown as a separate capital reserve paid out of the post acquisition retained profits of the subsidiary.

Minority interest in the income statement

PAT 135,000

PSC
Div 30,000
MI@60%18000

OSC
(135.000)
105000
@40%42000

Total MI=18+42=60000

Investment in Associate co	**shm**
Cost of investment in Associate co.	55
Add holding company"s share of post acqusiton. Profits	9
Add holding conpanys share of post acquisition Rev reserve	18
	82

Alternatively

Investing company"s share of net assets in Associate(30%x240)	72
Add Premium	10
	82

Net assets in associate co, are same as shareholders funds plus the revaluation gain.

MINORITY INTEREST (Balance sheet)

	Shm.		Shm.
OSC(40%x140)	56		
PSC(60%x50)	30		
P&L(40%(105-40))	26	Balance c/d	112

QUESTION TWO

A & B, C & D REALISATION A/C

	A&B Sh."000"	C&D Sh."000"		A&B Sh."000"	C&D Sh."000"
Property	740	1,000	Creditors	520	600
Fixtures & fittings	180	140	Bal: investment	76	-
Motor vehicles	300	180	ABCD:		
Stock	830	660	Debtors	646	551
Investments	80	-	Stock	845	639
Debtors	680	580	Motor vehicles	280	130
ABCD: Creditors	507	585	Fictures	160	-
Capital: A	480	-	Property	1,000	-
B	360	-	Cash book:		
C	-	345	Fixtures	-	1,350
D	-	230	Goodwill	630	450
	4,157	3,720		4,157	3,720

CAPITAL A/C

	A Sh."000"	B Sh."000"	C Sh."000"	D Sh."000"		A Sh."000"	B Sh."000"	C Sh."000"	D Sh."000"
Investment	-	76	-	-	Bal b/d	1,500	1,050	1,100	700
Cash	210	-	275	70	Current A/c	30	50	30	40
					Realisation	480	360	345	230
Bal c/d	1,800	1,500	1,200	900	Cash	-	116	-	-
	2,010	1,576	1,475	970		2,010	1,576	1,475	970

CASH BOOK

		Sh."000"			Sh."000"
			Bal b/d	-	90
Bal b/d	340	-	A	210	-
B: Capital	116	-	C	-	275
Realisation:			D	-	70
Fixtures	-	1,350	ABCD	246	915
	456	1,350		456	1,350

ABC&D
Balance Sheet as at 01.01.2004

	Sh."000"	Sh."000"
Non Current Assets		
Property		1,000
Fixtures & Fittings		160
Motor vehicles		410
Goodwill		1,080
		2,650
Current Assets		
Stock	1,484	
Debtors	1,197	
Cash	1,161	
		3,842
		6,492
EQUITY AND LIABILITIES		
Capital: A		1,800
B		1,500
C		1,200
D		900
		5,400
Current Liabilities		
Creditors	1,092	
		1,092
TOTAL EQUITY AND LIABILITIES		6,492

QUESTION THREE

MR. MWADAFU
PROFIT & LOSS A/C FOR YEAR ENDED 31.12.03

	Head Office		Branch		Combined	
	Sh."000	Sh."000"	Sh."000	Sh."000"	Sh."000	Sh."000"
Sales		2,800		1,871.66		4,671.66
GSTB		1,200		-		-
		4,000		1,871.66		4,671.66
Goods sent and lost		(17.5)		-		-
		3,982.5		1,871.66		4,671.66
Cost of sales						
Opening stock	519		270.6		789.6	
Purchases	2,797.90		-		2,797.98	
Goods received by branch	-		1,182.5		-	
Closing stock	473.7		126.45		600.15	
Gross profit		(2,843.28)		(1,326.65)		(2,987.43)
Insurance receivable		1,139.22		545.01		1,684.23
		10.5		-		-
Expenses		1,149.72		545.01		1,694.73
Depreciation: Furniture	31.2		10		41.2	
Rent and rates	80		40		120	
Wages	170		130		300	
Genera expenses	300	(581.2)	250	(430)	550	(1,011.2)
Profit before commission		568.52		115.01		683.53
10% commission		(56.852)		(11.501)		(68.353)
		511.668		103.509		615.177

MR. MWADAFU BALANCE SHEET AS AT31.12.03						
Non Current Assets						
Land & buildings		1,400		-		1,400
Furniture & equipment		280.8		90		370.8
		1.680.8		90		1,770.8
Branch current a/c		129.569		-		-
				90		1,770.8
Current Assets						
Stock	473.7		126.45		600.15	
Debtors	160		120		280	
Insurance receivable	10.5		-		10.5	
Cash in transit	24		-		24	
Cash	80		20		100	
	728.2		266.45		1,014.65	
Current Liabilities						
Creditors	247.8		165.38		413.18	
Staff commission accrued	56.852		11.501		68.353	
Bank overdraft	-	2,253.917	50	129.569	50	2,253.917
Head office current account				129.569		
Financed by						
Capital		1,788.74				1,788.74
Less drawings		(150)				(150)
		1,638.74				1,638.74
Retained profit		615.177				615.177
		2,253.917				2,253.917

BRANCH CURRENT ACCOUNT

	Sh."000"		Sh."000"
Balace b/d	1,567.56	Lost goods	17.5
Profit	103.509	Cash in transit	24
		Remittance	1,500
		Balace c/d	129.569
	1671.069		1671.069

HEAD OFFICE CURRENT A/C

	Sh."000"		Sh."000"
Remittance	1,524	Balace b/d	1,550.06
Balace c/d	129.569	Profit	103.509
	1,653.569		1,653.569

QUESTION FOUR

(a) **Abatement explained:**

When assets are insufficient to pay any class of legacies, all legacies in that category or class shall be reduced to a fraction of the original amount. This is known as abatement – it enables all legacies to be partially satisfied with the few assets available.

If assets are insufficient to pay specific legacies, these will abate rateably and no general or residuary bequests shall be paid.

If assets are sufficient to pay specific legacies but insufficient to pay general legacies, the general legacies shall abate rateably and no residuary bequest shall be fulfilled.

(b) **Classifications of Legacies**

(ii) Specific
(iii) General
(iv) Demonstrative
(v) Residual
(vi) Pecuniary legacy

(i) **Specific legacy** is a testamentary gift of a particular part or the property of thetestator, which identifies the part of a sufficient description whether in specific or in general terms and manifests an intention that that part shall be in enjoyed or taken in the state and condition indicated by that description.

(ii) **General legacy** is a testamentary gift, whether specific or general, of propertydescribed in general terms to be provided out of the general estate of the testator, whether or not also charged on any specific part of his estate.

(iii) **Demonstrative legacy** is a testamentary gift which is in its nature general butwhich manifests an intention that the gift shall be primarily satisfied out of a special fund or a specified part of the property described in general terms to be provided out of the general estate of the testator, whether or not also changed or any specific part of his estate.

(iv) **Residual legacy** is a gift of the remainder of the estate of the deceased after alltheir legacies have been paid.

(c) **ABC Retirement benefit Scheme**
Statement of changes in net assets for the year ended 30September 2003

	Sh."000"	Sh."000"
Contributions Received:		
From employers: Normal		36,480
From members: Normal	18,240	
Members additional voluntary	4,560	22,800
Transfer in:		
From other sources (individual transfers in)		3,150
		47,400
Investment Income		109,830
Benefits payable:		
Pensions	(7,640)	
Computations of pensions and lumpsum retirement benefits	(4,820)	
Payments to and on account of leavers (individual transfers out)	(1,860)	(14,320)
		95,510
Changes in market value of investments		(22,640)
		72,870
Payments: Admin expenses		(2,840)
Net Change for the year		70,030

ABC Retirement benefit Scheme
Statement of net assets as at 30September 2003

	Sh."000"	Sh."000"
Investment Assets		
Fixed interest securities		
Kenya Government securities		263,605
Equity investments		
Quoted	87,835	
Unquoted	19,990	107,825
Cash and demand deposits		
		23,460
Non Current Assets		394,890
Freehold property		
		132,320
Current Assets		527,210
Contributions due within 30 days	4,940	
Current liabilities		
Unpaid benefits	(320)	
Accrued expenses	(240)	
	(560)	
		4,380
Financed by:		531,590
Accumulated fund as at 1/10/2002		
Net new money invested as per revenue account including changes in market value of investments		461,560
		70,030
		531,590

QUESTION FIVE

Liquidator"s statement of account

	Shs.			Shs.
Proceeds from sale of unpledged assets:		Costs and charges:		
Land and buildings	6,000,000	Expenses of liquidation		545,000
Plant and machinery	10,000,000	Liquidator"s commission		735,000
Patents	1,500,000			1,280,000
Stock	3,000,000	Preferential creditors		760,000
Sundry debtors	4,000,000	Floating charge		
		Debenture	5,000,000	
Cash	1,500,000	Interest	750,000	5,750,000
		Unsecured creditors		
		(6,375,000 – 760,000)		5,615,000
		Preference shareholder		
		Capital	10,000,000	
		Dividend (10%x10mx2)	2,000,000	12,000,000
		Ordinary shareholder		
		50,000 equity shares @100		711,250
		150,000 equity shares @ 100		(116,250)
				595,000
	26,000,000			26,000,000

Schedule of repayments to shareholders

	Issued	Paid up	Calls in arrears	Gross repayment	Net repayment
50,000 equity shares @ Sh.100	5,000,000	3,750,000	1,250,000	1,961,250	711,250
150,000 equity shares @ Sh.100	15,000,000	9,000,000	6,000,000	5,883,750	(116,250)
	20,000,000	12,750,000	7,250,000	7,845,000	595,000
Available cash			595,000		
			7,845,000		

Workings

Gross repayments – Ordinary shares:

1. $\frac{5M}{20M} x7,845,000$

2. $\frac{15M}{20M} x7,845,000$

Net repayment = Gross repayments less calls in arrears.

DECEMBER 2012

QUESTION ONE

(a) Hapa Ltd

Income statement for year ended 31/10/2004

	Sh. „000"	Sh. „000"
Turnover		1432,000
Cost of sales		(967,170)
Gross profit		464,830
Other incomes		31,500
		468,330
Expenses		
Distribution costs	87,670	
Administration costs	198,640	
Finance costs	9,000	(295,310)
Profit before tax		173,020
Income tax expense		(53,000)
Profit after tax		120,020
Dividends paid		(21,000)
Retained profit for the year		99,020

(b) **Hapa Ltd**

Balance sheet as at 31/0ctober 2004

Non current assets	**Sh.(000)**	**Sh.(000)**
Property /plant equipment		421,500
Investments		35,000
		456,500
Current assets		
Inventories	163,000	
Trade & other *	101,600	
Bank balance	49,620	314,220
Total assets		770,720
Ordinary share capital		300,000
Revaluation Reserve		3000
Retained profits		230,020
Shareholders funds		533,020
Non-current liabilities		
10% Debentures		45,000
Current liabilities		
Trade payables & accounts	43,400	
Bank overdraft	47,000	
8% Debentures	50,000	
10% Debentures	5,000	
Tax payable	47,300	192,700
Total equity & liabilities		770,720

Notes to the accounts

Note 1: Accounting policies

(a) These financial statements have been prepared under the historical cost basis of accounting and in accordance with the applicable IFRSs.
(b)Inventory is valued at the lower of cost and net realizable value.
(c) Depreciation is based on the estimated useful life of the assets at the following rates;

Asset	Rates
Buildings	2 ½%
Plants and machinery	15%
Motor vehicles	20%

Note 2 Profit for the year is arrived at after changing the following expenses.

	Sh."000"	Sh. „000"
Directors emoluments: fees	3,000	
Others	52,000	52,000
Depreciation		48,500
Addition remuneration		3,800
Staff costs		588,270

Note 3 property, plant and equipment

	Free hold and buildings Sh."000"	Plant and machinery Sh."000"	Motor vehicles Sh."000"	Total Sh."000"
Cost/valuation				
Balance as at 1.11.03	250,000	220,000	25,000	495,000
Additions	-	45,000	-	45,000
Disposals	-	(20,000)	-	(20,000)
Balance as at 31.12.04	250,000	245,000	25,000	520,000
Depreciation				
Balance as at 1.11.03	15,000	40,000	10,000	65,000
Change for year	3,750	36,750	5,000	45,000
Eliminated disposal	-	(12,000)	-	(12,000)
Balance as at 31.10.04	18,750	64,750	15,000	98,500
NBV as at 31.10.04	231,250	18,250	10,000	421,500
NBV as at 1.11.03	235,000	180,000	15,000	430,000

Note 4 inventory
Inventory is made up as follows

	Sh."000"
Row materials	50,900
Work in progress	24,875
Finished goods	87,225
	163,000

Workings

Expenses

	Cost of sales Sh."000"	Distribution costs Sh."000"	Administration expenses Sh."000"
As per question	927,420	82,670	136,090
Depreciation: plant	36,750		
Vehicles		5,000	
Buildings			3,750
Loss on sale of plant	3,000		
Directors salaries			52,000
- fees			3,000
Audit fees and expenses			3,800
	967,170	87,670	198,640

Depreciation of plant for the year

	Sh. „000"
(15% x (220 – 45 – 20)	36,750
loss on disposal (20 - 12 - 5)	3,000

QUESTION TWO

(a). Branch Stock Account

	Nakuru From H/O Sh.000	Nakuru local Sh.000"	Kisumu		Nakuru From H/o Sh.000	Nakuru local Sh.000	Kisumu
Goods sent to branch	36,000	750	48,000	Returned to H/O	400		200
To other branches	200			To other branches	700		200
			700	Scrapped goods	20		15
				Sales of reduced prices	900		1,080
				Sales at normal prices	30,760	690	42,260
				Marked down	100		120
				Abnual loss (buying)	80		85
				Bal. c/d	3,240	60	4,740
	36,200	750	48,700		36,200	750	48,700

(b). Branch Markup

	Nakuru From H/O Sh.000	Nakuru local Sh.000	Kisumu		Nakuru From H/o Sh.000	Nakuru local Sh.000	Kisumu
Returns	100		50	Branch stock account	9,000		12,000
Transfer to other branches	175		50	Goods purchased		250	
Scrapped	20		15	Transfer to other branches	50		175
Mark down	100		120				
Mark up c/d	810	20	1,185				
Annual loss	20		21				
Gross pay	7,825	230	10,734				
	9,050	250	12,175		9,050	250	12,175

(c) Goods sent to branch

	Nakuru From H/O Sh. 000	Kisumu Sh.000		Nakuru From H/o Sh.000	Kisumu
Returns	300	150	Goods sent at cost	27,000	36,000
Goods sent to other branches	525	150	Goods received from other branches	150	525
Purchases bought	26,325	36,225			
	27,150	36,525		27,150	36,525

(d). Ngoo Traders
Branch profit and loss account for year ended 30.6.04

	Nakuru		Kisumu	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Gross profit				10,734
Expenses				
Wages & overheads	6,200		7,300	
Sundries	400		340	
Abnual loss	60		64	
Service/non office	500		500	
Receipts of taxation	350	(7,510)	420	(8,624)
Net profit		545		2,110

QUESTION THREE

(a). Under IAS 27 a parent need not present consolidation financial statements if and only if
- (i). The present itself is of wholly owned subsidiary
- (ii). The present debts of equity instruments not traded in a stock exchange.
- (iii). The parent is in a group in which it is a subsidiary and the ultimate parent in that group prepare consolidated financial statements that supply with IFRSs.
- (iv) The parent has not filed nor is not in the process of filing its financial statements with of regulatory organization in the purpose of issuing any class of instruments.

(b). Pine Ltd
Balance sheet as at 31 March 2004

	Shs. "000"	Shs. "000"
Non-current assets		
Property, plant & equipment		35,760
Goodwill		3,044.25
		38,804.25
Current assets		28,820
Total assets		67,624.25
Financed by:		
Ordinary share capital		28,000
Retained Profits		11,563
Proposed dividends		3,360
		42,923
Minority Interest		7,941.25
Shareholders funds		50,864.25
Non current liabilities		
5% Debenture Current Liabilities		600
Trade credit	15,650	
Dividends due to Minority Interest	480	
Debenture Interest due	30	15,160
Total equity and liability		67,624.25

Workings

(i). Coc

	Sh. „000"		Sh. „000"
Investment in C	16,200	P OSC	9,000
		P & L	3,975
		Pre-acquisition dividends	720
Investment in O	3,840	O: OSC	2,700
		P & L	600.75
		Balance c/d (Goodwill)	3,044.25
	20,040		20,040

(ii). Minority Interest

	Sh. „000"		Sh. „000"
Investment in O	1,280	C: OSC	3,000
		P & L	1,580
		PSC	3,000
		O: OSC	1,300
Balance c/d	7,941.25	PSL	341.25
	9,221.25		9,221.25

(iii) P & L

	Sh. „000"		Sh. „000"
Pre-acquisition dividends	720	P & L: pine	10,460
		P & L cedan (Post acquisition)	
		P & L Oak ((Post acquisition)	765
		Dividends Receivable	
		Debenture Interest	108
			900
Balance c/d	11,563		50
	12,283		12,283

QUESTION FOUR

(a). Note: The examiner has not indicated whether we should apply the rule in ***Garner Vs Murrey,*** therefore will assume it is applied

		Total	N	K	L	M
	Sh. „000"	**Sh. „000"**	**Sh. „000"**	**Sh. „000"**	**Sh. „000"**	**Sh. „000"**
Capital a/c		45,000	10,000	17,500	10,000	7,500
General Revenue		17,500	7,000	5,250	3,500	1,750
		62,500	17,000	22,750	13,500	9,250
Cash available						
Feb. 10 Bal b/d	782.5					
Feb. 10 Inventory	8,750					
Feb. 16 Debtors	7,330					
Feb. 27 Investment	6,050					
	22,912.5					
Less: Creditors	(17,307.5)					
Realization	(1,250)	(4,335)				
Maximum possible loss		58,145	(23,258)	(17,443.5)		
			(6,258)		(11,620)	(5,814.5)
Reallocation of loss based on				5306.5		
capital balances			(6,258)	(3,129)	1,871	3,435.5
1 Mar. Distrib"on of cash			____	2,177.5	(1,856.8)	(1,272.2)
1 March Balance b/f		58,145	17,000	20,572.5	14.2	2,163.3
Cash available					13,485.8	7,086.7
3 Mar. Furniture/Fitting						
20 Mar. Land & Build.						
Debtors	5,000					
Inventory	17,500					
Maximum possible loss	1,250					
2 Distribution of cash	6,875					
1 April Bal b/d						
Cash available		(30,625)		(8,256)		
15 April:		27,520	(11,008)	12,316.5	(5,504)	(2,725)
Plant & Machinery			5,992	8,256	7,981.5	4,334.7
Debtors		27,520	11,008		5,504	2,752
Savings on realization						
Maximum possible loss	16,400					
3rd& final distribution	877.5					
	250					
		(17,527.5)				
				(3,997)		
		9,992.5	(3,997)	5,258.25	(1,998.5)	(999.25)
			7,011		3,505.5	1,752.75

(b). Realization

	Sh."000"		**Sh. „000"**
Land & buildings	21,250	Cash book: Inventory	8750
Plant and Machinery	19,802.5	Debtors	7330
Furniture & fittings	7,500	Investments	6050
Investments	5,000	Furniture & Fittings	5000
Inventory	15,870	Land & Building	17500
Debtors	9,602.5	Debtors	1250
Realization expenses	1,000	Inventory	6875
		Plant & machinery	16400
		Debtors	877.5
		Loss on Realization	
		N 3997	
		K 2997.75	
		L 1998.5	
	80,025	M. 999.25	80,025

Capital Account

	N Sh."000"	K Sh."000"	L Sh."000"	M Sh."000"		N Sh."000"	K Sh."000"	L Sh."000"	M Sh."000"
Loss realization	3997	2997.5	1998.5	999.25	Bal b/d	10000	17500	10000	7500
Cash book									1750
1st Dist	-	2177.5	14.2	2163.3	General				
2nd Dist	5972	12316.5	7981.5	4334.7	Reserve	7000	5250	3500	
3rd Dist.	7011	5258.25	3505.5	1752.75					
	17000	22750	13500	9250		22250	13500	13500	9250

(a) (i) **Donatio matis causa**

These are gifts in Contemplation of death.

(ii) **Partial Intestacy**

This is where the will does not dispose of all the properties of the testator.

(b) 1. The gift to Linda – Kifo being Linda"s father, he is under moral obligation to provide for her. The lifetime gift of Sh. 60,000 will deemed as if Kifo had made the payment during his lifetime. The balance of Sh. 40,000 may pass to Linda.

2. Equitable doctrine of conversion will apply a though kifo died before completion of the contract his estate at death is deemed to include the really (house in Thome) which will go to Elisha under the terms of the will.

3. The condition in the gift of Lita is contrary to public policy. Lita will take the gift without the condition and will remain free to remarry.

(c)

	House 1 Atieno	House 2 Anyango	House 3 Akinyi	Total
Spouse	1	0	1	2
Children	3	2	0	5
	4	2	1	7
Personal effects				400,000
Household effects				1,000,000
	800,000	400,000	200,000	1,400,000
Motor Vehicle				
Residue				500,000
				3,000,000
	2,000,000	1,000,000	500,000	3,500,000
	2,800,000	1,400,000	700,000	4,900,000

House 1: Atieno will get the Personal & Household effects of Sh. 800,000 absolutely. She also has a life interest of Sh. 2m in the remaining estate which will pass to the 3 children equally if she die or remarries.

House 2: The two children will each get a share of Sh. 700,000. This will be held in trust for any child who is yet to reach the age of maturity.

House 3: Akinyi will get personal and household effects of Sh. 200m absolutely, she is also entitled to 10% of 500m = est. Sh. 50,000 absolutely (he higher of Sh. 10,000 & 10% 500m) and life interest in the remainder of Sh. 450m.

JUNE 2013

QUESTION ONE

(a) Computation of bond and ordinary shares to be issued to partners: Determine the opening capital balances as 1 April 2004.

Assets less liabilities to partnerships	Jembe Shs. „000"	Panga Shs. „000"	Partnership Shs. „000"
Freehold property	2,000	1,500	3,500
Plant and equipment	6,500	5,500	12,000
Fixtures and fittings	1,500	1,500	3,000
Inventory	1,800	350	2,150
Accounts receivable	1,900	1,000	2,900
Balance at bank	300	150	450
	14,000	10,000	24,000
Accounts payable	(6,800)	4,000	10,800
Capital balances 1.4.04	7,200	6,000	13,200

Compute the capital balances as at 31 March 2005 before conversion takes place.

	Jembe Shs. „000"	Panga Shs. „000"
Capital balance as at 1.1.04	7,200	6,000
Profit for year		
(Net assets as at 31.3.05 – Total capital b/f + Drawings)		
(14,350 – 13,200 + 2,390 + 610) = Sh. 4,150		
Share in PSR 3:2	2,490	1,660
	9,690	7,660
Less drawings:	(2,390)	(610)
Capital balance at 31.3.05	7,300	7,050

Bond to be issued

	Sh. „000"	Sh. „000"
Capital balance as at 31.5.05	7,300	7,050
Add Revaluation gain		
(6,000 + 5,670 – 4,000 – 6,420)1,250		
Share in PSR 3:2	750	500
Updated capital balances	8,050	7,550
6% rate of return	483	453
15% Bond to be issued $\frac{483}{0.15}$	3,220	3,020

Revaluation a/c

	Jembe	Panga		Jembe	Panga
Plant & Equipment	300	100	Freehold property	500	500
Fixtures	100	50			
Capital-surplus	100	350		—	—
	500	500		500	500

Capital A/C

	Jembe	Panga		Jembe	Panga
			Bal b/d	7,100	5,650
Bal c/d	7,200	6,000	Revaluation	100	350
	7,200	6,000		7,200	6,000

Net profit for the year

Change in capital = profit

Capital bal as at 31/3/05	14,350
Less: opening capital	13,200
Change in capital	1,150
Add: Drawings	3,000
Profit for the year	4,150
Profit share Jembe	2,490
	1,660

	Jembe	Panga	Total
Capital employed	7,200	6,000	13,200
Bal b/d	2,490	1,660	4,150
Add: share of profit	750	500	1,250
Add: revaluation	(2,390)	(610)	(3,000)
Less: drawings	8,050	7,550	15,600
Debentures issued	3,220	3,020	6,240
Shares	3,900	2,600	6,500

Shares to be issued:

	Jembe Sh. „000"	Panga Sh. „000"
Total per value		
130,000 x 50 = Sh. 6,500,000		
Based on PSR 3:2	3,900,000	2,600,000

(12 Marks)

(b) Partners capital account as at 31 March 2005

Capital account

	J Sh. „000"	P Sh. „000"		J Sh. „000"	P Sh. „000"
Drawings	2,390	610	Balance b/d	7,200	6,000
Bond	3,220	3,020	Profit	2,490	1,660
Share capital	3,900	2,600	Revaluation		
Bank	930	1,930	Gain	750	500
	10,440	8,160		10,440	8,160

(3 marks)

(c)

Shamba Ltd
Balance sheet as at 31 March 2005

Non current assets	**Sh. „000"**	**Sh. „000"**
Freehold property		6,000
Plant and equipment		13,000
Fixtures and fittings		3,000
		22,0000
Current assets		
Inventory	3,350	
Accounts receivable	5,670	
Bank	125	9,145
Total assets		31,145
Share capital		6,500
Non current liabilities		
15% Bond		6,240
Current liabilities		
Accounts payable	9,920	
Bank overdraft	8,485	18,405
		31,145

(5 Marks)
(Total: 20 marks)

WORKINGS

(ii) Bank overdraft

	Sh. „000"
Balance as at 31 May 2005	(5,625)
Less: Jembe	930
Panga	1,930
	8,485

QUESTION TWO

Lusiola Group
Consolidated Balance Sheet as at 31 March 2004

	Sh. „000"	Sh. „000"
Non current assets:		
Property		45,840
Goodwill (4,800 – 800)		800
Investments		8,800
Current assets:		
Inventory (13,500 + 600 – 100)	14,000	
Receivables (7,200 + 1,500 – 2,000)	6,700	
Cash and Bank	300	21,000
		76,440
Equity & Liabilities:		
Equity shares(ord. shares)		10,000
Accumulations profits		34,510
Minority interest		1,130
Dividends		1,000
		46,640
Non-current liabilities:		
12% debentures		10,000
Current liabilities:		
Payables (6,700 + 5,200 – 1,460)		10,500
Overdraft		4,500
Tax		4,800
		19,800
		76,440

(Total: 20 marks)

WORKINGS:

(1) **Property Plant & Equipment**

	Sh. „000"
Lusialo	26,400
Kacheliba	16,200
Revaluation	5,400
Depreciation additional (2 years)	(2,160)
	45,840

Investments

Lusialo	1,000
Kacheliba	6,000
Revaluation 90% (8,000 – 6,000)	1,800
	8,800

(2) **Inventory**

Total 9,500 + 4,000	13,500
Add: Goods in transit (600 x $\frac{100}{120}$)	500
	14,000

(3)

Cost of control

	Sh. „000"		Sh. „000"
Cost	30,000	Shares 90%	4,500
		Profit	13,500
		Revaluation	7,200
		Pre-acq div.	3,600
		Goodwill	1,200
	30,000	P	30,000

(4) **MI**

Ordinary shares =	5,000 x 10%	=	500
Retained earnings =	6,300 x 10%	=	630
			1,130

(5)

P & L (W)

	Shs.		Shs.
K-Post-Acq. Loss 8,700 x 90%	7,830	Lusialo bal b/d	48,600
UPCS	100		
Dep. Adj	2,160		
Pre-Acq. Div	3,600		
Goodwill w/o	1,466		
	48,600		48,600

QUESTION THREE

(a)

JAMILA TRADERS
Income Statements
For the year ended 30 September 2004

	NANYUKI Shs.	THIKA Shs.	COMBINED Shs.
Sales	13,000,000	9,202,200	22,202,200
Goods sent to branch			
(Less: lost in transit)	6,387,330	-	-
	19,387,330	9,202,200	22,202,200
Less: Cost of sales			
Opening stock	2,595,000	1,552,500	3,945,000
Purchases/Goods received	13,626,600	6,387,330	13,626,600
	16,221,600	7,939,830	17,571,600
Less: Cost of goods lost	82,500	-	82,500
Closing stock	834,900	2,932.5	837,450
Cost of sales	15,304,200	7,936,897.5	16,651,650

Gross profit	4,083,130	1,265,302.5	5,550,550
Add: Realised profit	202,117.5	-	-
Less: Expenses			
Goods lost (not claimed)	12,375		12,375
Rent and rates	395,400	197,250	592,650
Salaries and wages	851,700	487,500	1,339,200
General expenses	1,887,750	1,258,950	3,146,700
Depreciation	77,950	23,050	101,000
Staff bonus (1,060,072.5 x $^{10}/_{100}$)	96,370	-	96,370
Net profit	963,702.5	(701,447.5)	262,255
	(701,447.5)	701,447.5	
Net profit c/d	262,255		

(12 marks)

(b)

JAMILA TRADERS
Balance Sheet
As at 30 September 2004

ASSETS	**COMBINED**
Non Current Assets	**Shs.**
Buildings	3,500,000
Furniture & fittings	909,000
Branch current account	-
Less: prov for unrealized profit	-
	4,409,000
Current Assets	
Stock	837,450
Accounts receivable	1,300,500
Insurance claim receivable	70,125
Cash in Transit	71,250
Cash at Bank	687,050
	2,966,375
Less: Current Liabilities	
Accounts payable	1,509,200
Bank overdraft	250,000
Bonus payable	96,370
	1,855,570
Net Current Assets	1,110,805
	5,519,805
Financed by:	
Capital	6,040,925
Net profit	262,255
	6,303,180
Less: Drawings	783,375
	5,519,805

(8 Marks)
(Total: 20 Marks)

Provision for Unrealised Profits

	Shs.		Shs.
P & L (Realised)	202,117.5	Balance b/d	202,500
Balance c/d	382.5		
	202,500.0		202,500
		Balance b/d	382.5

Branch Current Account

	Shs.		Shs.
Balance b/d	8,931,555	Remittances	7,548,750.0
		Stock lost	94,875.0
		Cash in transit	71,250.0
		Branch loss	701,447.5
		Balance c/d	515,232.5
	8,931,555		8,931,555.0
Balance b/d	515,232.5		

Head Office Current Account

	Shs.		Shs.
Remittances	7,620,000.0	Balance b/d	8,836,680.0
Branch loss	701,447.5		
Bal c/d	515,232.5		
	8,836,680.0		8,836,680.0
		Balance b/d	515,232.5

SELECTED WORKINGS

1. Depreciation

Head office:	779,500 x 10%	=	77,950
Branch:	230,500 x 10%	=	23,050

2. Insurance claim

Cost of Goods = $94,875 \times \frac{100}{115}$ = 82,500

3. Loss: 15% x 82,500 = 12,375

4. Cost of Closing Stock::

Head office	
Opening stock at cost	2,595,000
Purchases	13,626,600
Goods available for sale	16,221,600
Less: Goods to Branch:	
$(6,482,205 \times \frac{100}{115})$	(5,636,700)
Sales (13,000,000 x ¾)	(9,750,000)
Closing stock at cost.	834,900

Branch:

Opening Stock	1,552,500
Goods received	6,387,330
	7,939,830
Less: Cost of sales	
$\left(9,202,200 \times \frac{3}{4} \times \frac{115}{100}\right)$	(7,936,897.5)
Closing stock at mark up	2,932.5

(5) Combined stock::

	Shs.
Head office	834,900
Branch: $\left(2,932.5 \times \frac{100}{115}\right)$	2,550
	837,450

QUESTION FOUR

Medsan Traders
Statement of affairs as at 31/12/04

	Jani estate Shs. „000"	Hamed Shs. „000"	Hassan Shs. „000"		Jani estate Shs. „000"	Hamed Shs. „000"	Hassan Shs. „000"
Unsecured creditors	17,900	400	1,900	Plant & machinery	1,500	-	-
Fully secured creditors	6,000	5,000	-	Furniture & fixtures	800	1,200	1,500
Less value of security	12,000	10,000	-	Inventory	6,500	-	-
Surplus to below/contra	6,000	5,000	-	Accounts receivable	10,000	-	-
Partly secured creditors	7,000	7,000	-	Investments	-	-	1,900
Less value of security	(6,000)	(2,400)	-	Surplus from fully secured creditors	-	5,000	-
Deficiency ranking as unsecured	1,000	4,600	-	Available to preferred unsecured credit	18,800	6,200	3,400
Preferential creditors deducted as per contra	1,100	300	500	Less: preferential creditors deducted per contra	(1,100)	(300)	(1,800)
Surplus to partnership		300	900	Available to unsecured creditors.	17,700	5,900	2,900
Surplus as per surplus a/c		600	100	Surplus from partners – H	300		
				- Hasan	900		
	18,900	5,900	2,900		18,900	5,900	2,900

Deficiency/Surplus

	Medsan Shs. „000"	Hamed Shs. „000"	Hassan Shs. „000"		Medsan Shs. „000"	Hamed Shs. „000"	Hassan Shs. „000"
Estimated excess of assets over liabilities	3,000	5,050	3,650	Unrecorded liability-loss on guarantee of overdraft	-	7,000	-
Estimated gain on realization - prop	1,000	3,000	-	Estimated loss on realization			
- investments	-	900	-	- Plant & machine	1,500	-	-
Surplus from partners – Hamed	300	-	-	- Furniture & fittings	200	300	300
- Hassan	900	-	-	- Inventory	1,500	-	-
				- Receivables (12-10)	2,000	-	-
				- Other investments	-	-	100
				Loss of partnership capital	-	750	2,250
				Surplus and partnership	-	300	900
				Surplus as per SOA	-	600	100
	5,200	8,950	3,650		5,200	8,950	3,650

Workings:

1. Unsecured creditors	**Medsan Shs. „000"**	**Hamed Shs. „000"**	**Hassan Shs. „000"**
Accounts payable	19,000	700	2,400
Less: preferential creditors	(1,100)	(300)	(500)
	17,900	400	1,900
2. Fully secured creditors	**Medsan**	**Hamed**	**Hassan**
Mortgage on freehold property	6,000	5,000	-
Less: value of security	(12,000)	(10,000)	-
	6,000	5,000	-
	To partly secured Creditors	**To assets estimated To realize**	
3. Partly secured creditors	**Medsan**	**Hamed**	**Hassan**
Bank overdraft	7,000	7,000	-
Less value of security	(6,000)	(2,400)	-
Deficiency ranking as unsecured	1,000	4,600	-

4. A/C receivables

Good debtors	=	9M
Bad debtors	=	1M
		10M

Total = 12M – 10M = 2M (doubtful) x $^{50}\!/_{100}$ (expected to be paid)
= 1M
Total debtors expected = 9M + 1M = 10M

5.

	Joint		Hamed		Hassan (Double proof)
Def	(1,200)	Surp	900	Surp	1,000
	300	PSR	(300)		(900)
	900		600		100
	-				

Excess of assets over liabilities

	Partnership	Hamed	Hassan
Assets	**Shs. „000"**	**Shs. „000"**	**Shs. „000"**
Freehold property	11,000	7,000	-
Plant and machinery	3,000	-	-
Furniture and fixtures	1,000	1,500	1,800
Inventory	8,000	-	-
Account receivables	12,000	-	-
Investments – in partnership	-	150	2,250
- Private	-	1,500	2,000
	35,000	10,750	6,050
LIABILITIES			
Mortgage on property	(6,000)	(5,000)	-
Bank overdraft	(7,000)	-	-
Accounts payables	(19,000)	(700)	(2,400)
CAPITAL	3,000	5,050	3,650

NOTE:
The excess of assets over liabilities in the partnership of Shs. 3 represents the combined capital of Hamed and Hassan. The example does not give the breakdown of how much has been contributed by each partner and thus we will assume that the capital has been contributed in their profit sharing ratio.

∴ Hamed = ¼ x 3,000 = 750

Hassan = ¾ x 3,000 = 2,250

QUESTION FIVE

(a) (i)**Life tenant:** the person, normally the wife, who will receive the benefits of the trust fund until her death. (2 Marks)

(ii) A gift that does not come from a designated source is known as a **general legacy.** It may also be said to be a testamentary gift, whether specific or general of property described in general terms to be provided out of the general estate of the testator. (2 Marks)

(iii) A conveyance of gift that is to be derived from a specified source is known as a **demonstrative legacy.** It may also be said to be a testamentary gift which is in its nature general but which manifests an intention that the gift shall be primarily satisfied out of a specific part of the property of the testator, or upon failure of that fund or property, be met from the general estate. (2 marks)

Estate of Apollo Matalanza
Charge and Discharge Statement
January 23, 2004 – June 25, 2004
Kamau Otieno, Executor

AS TO PRINCIPAL

	Shs.	Shs.	Shs.
I CHARGE MYSELF WITH:			
Assets per original inventory			512,000
Gain on sale of antiques			2,000
Total charges			514,000
I CREDIT MYSELF WITH			
Debts of decedent:			
Medical expenses	11,000		
Other debts	5,000	16,000	
Funeral and admin expenses		26,000	
Legacies distributed:			
Joan Matalanza			
(house and personal effects)	310,000		
Yacobo Matalanza			
(Cash)	9,000	319,000	
Total credits			(361,000)
Estate principal			153,000
ESTATE PRINCIPAL			
Cash (see working below)			23,000
Investments:			
Stocks			21,000
Bonds			44,000
Land			65,000
Estate principal			153,000
CASH BALANCE			
Beginning balance			46,000
Sale of antique			21,000
Collection of receivables			
(dividends 1,000 interest 2,000 and rent 4,000)			7,000
(Funeral expenses 17,000, executor charges			
9,000 medical expenses 11,000 and debts 5,000)			(42,000)
Legacy distribution (Yacobo Matalanza)			(9,000)
Cash balance			23,000

AS TO INCOME

I CHARGE MYSELF WITH:

	Shs.
Dividend income	
(2,000 collection less 1,000 receivable at death)	1,000
Interest income (3,000 less 2,000)	1,000
Rent income (7,000 less 4,000)	3,000

Balance as to income	<u>5,000</u>

Balance as to income:

Cash	<u>5,000</u>

DECEMBER 2013

QUESTION ONE

Soma Ltd
Income Statement for the year ended 31 October 2005

	Sh. „000"	Sh. „000"
Revenue		
Cost of Sales		1,574,500
Gross Profit		(886,478)
		(688,022)
Expenses		
Distribution costs	127,062	
Administration expenses	246,086	
Finance costs	92,460	(465,608)
Profit before tax		222,414
Income tax expense (85,000 – 2,500)		(82,500)
Profit for the year		139,914

Soma Ltd
Statement of changes in equity (extract)

	Retained Profits Sh. „000"
Balance as at 1.1.2004	119,046
Correction of error (additional depreciation)	(27,000)
Balance as restated	92,046
Profit for the period	139,014
Purposed dividend	(21,000)
Balance as at 31.10.2005	210,960

Soma Ltd
Balance sheet as at 31 October 2005

Non current assets	Sh. „000"	Sh. „000"
Property, plant and equipment		715,750
Intangible assets		96,000
		811,750
Current assets		
Inventory	111,100	
Accounts receivables	159,714	
Cash	100	270,914
Total assets		1,082,664
Ordinary share capital		60,000
Retained profits		210,960
Shareholders funds		270,960
Non current liabilities		
12½ Debentures	200,000	
Bank loan	240,000	440,000
Current liabilities		
Bank loans (including overdraft)	80,754	
Accounts payable	139,950	
Current tax	130,000	
Proposed dividends	21,000	371,704
Total equity and liabilities		1,082,664

Notes to the Accounts

NOTE 1: ACCOUNTING POLICIES

(i) Financial statements have been prepared under the historical cost basis of accounting in accordance with the applicable international financial reporting standards.

(ii) Property, Plant and equipment is stated as cost less the accumulated depreciation. Depreciation is provided at the following rates:

Asset	Rate
Land	Nil
Buildings	2% on cost
Plant and equipment	15% on cost
Office equipment	10% on reducing balance

(iii) Inventory is stated in the accounts at the lower of cost and net realizable value.

NOTE 2: PROFIT FOR THE PERIOD

The profit for the period is arrived at after charging the following expenses;

	Sh. „000"
Depreciation	56,972
Amortisation	24,000
Director remuneration	714
Employee benefits	238,006

NOTE 3: PROPERTY PLANT AND EQUIPMENT

Cost/valuation	Land	Buildings	Plant	Office Equipment	Total
	Sh. „000"	Sh. „000"	Sh. „000"	Sh. „000"	Sh. „000"
Balance at 1.11.2004	350,000	150,000	200,000	107,722	807,722
Additions	-	-	100,000	-	100,000
Balance at 31.10.2005	350,000	150,000	300,000	107,722	907,722
Depreciation					
Balance as at 1.11.2004	-	-	90,000	18,000	108,000
Provisions for previous years	-	27,000	-	-	27,000
Charge for the year	-	3,000	45,000	8,972	56,972
Balance as at 31.10.2005	-	30,000	135,000	26,972	191,972
Net book value:					
As at 31.10.2005	350,000	120,000	165,000	80,750	715,750
As at 31.10.2004	350,000	150,000	110,000	89,722	699,722

Workings:

(i) **Cost of sales**

	Shs. „000"
Per trial balance	670,396
Depr: Property	3,000
Plant	45,000
Amortisation	24,000
Office equipment	8,972
Write down of inventory	9,600
Factory wages	125,510
	886,478

(ii)
Finance Costs

	Sh. „000"
Per trial balance	79,960
Debenture interest	12,500
	92,460

(iii)

Current tax in B/S	Sh. „000"
Previous years (as agreed)	45,000
Current year"s estimate	85,000
	130,000

(iv) **Distribution costs**

	Shs. „000"
Per trial balance	86,560
Increase in provision for debts	7,786
Warehouse	32,716
	127,062

(v) **Administration expenses**

	Shs. „000"
Per trial balance	165,592
Office salaries	79,780
Directors" remuneration	714
	246,086

(vi) **Income tax expense**

	Sh. „000"
Current year estimate	85,000
Previous year"s over provision	(2,500)
	82,500

QUESTION TWO

Hipa Group

Cash Flow Statement for the year ended 30.9.2005

Cash flows from operating activities	**Sh. million**	**Sh. million**
Profit before tax	870	
Adjustments		
Amortisation of other intangibles	130	
Goodwill (200 – 180)	20	
Depreciation of property, plant and equipment	320	
Finance costs	30	
Loss on sale of plant	50	
	1,420	
Changes in working capital		
Increase in inventory (1420 – 940)	(480)	
Increase in receivables (990 – 780)	(310)	
Increase in accounts payable (875 – 730)	145	
Cash generated from operations	775	
Interest paid (30 – (15 + 5))	(20)	
Income tax paid	(130)	
Net cash from operating activities		625
Cash flows from investing activities		
Purchase of property, plant and equipment	(250)	
Additional intangible assets	(500)	
Proceeds on sale of plant	20	
Dividends from associates (80 + 20 – 95)	5	
Net cash used in investing activities		(725)
Cash flows from financing activities	**Shm**	**Shm**
Proceeds from issue of shares at a provision	450	
Issue of loan notes (300 – 100)	200	
Repayment of loan	(40)	
Dividends: Holding Co. 2004 Final + 2005 interim)	(320)	
Minority Interest (100 + 40 – 135)	(5)	
Net cash received from financing activities		**285**
Net increase in cash and cash equivalent		185
Cash and cash equivalent b/f		(115)
Cash and cash equivalent c/f		
Cash and cash equivalent		70

	B/f	C/f
	Shm	**Shm**
Cash	-	70
Bank overdraft	(115)	-
	(115)	70

Workings:

(i) **Amortisation of intangibles**

	Shm
Bal B/f	100
Addition	500
Bal. c/d	(470)
Amortisation	130

(ii)

Tax paid	Shm
B/f: Current tax	160
Deferred tax	140
Change to P & L	270
Bal. c/f current tax	(130)
Deferred tax	(310)
Cash paid	(130)

(iii) Property, plant and equipment

	Shm
Bal b/f	1,830
Revaluation surplus	200
Plant bought	250
Depreciation	(320)
Bal c/d	(1,890)
Diffence (NBV of disposal)	70
Disposal: NBV	70
Loss	(50)
Cash received	20

(iv)

Share capital	**Shm**
Bal b/d	(500)
Bonus issue	(50)
Bal. c/d	750
Cash received	200
Plus share premium (350 – 100)	250
	450

QUESTION THREE

(a) Kampala Branch Translated Trial Balance

	Ush „000"	Ush. „000"	Rate	Ksh. „000"	Kshs. „000"
Cash at bank	130,000		13	10,000	
Accounts receivable	260,000		13	20,000	
Inventory – 30 June 2005				7,160	
Accounts payable		65,000	13		5,000
Head office – current		96,000	-		50,000
Sales		1,600,000	10		160,000
Cost of goods sold	930,000		10	93,000	
Operating expenses	360,000		10	36,000	
Exchange loss	-			48,840	
	1,761,000	1,761,000		215,000	215,000

Workings

Value of closing stock	Ush. „000"	Rate	Kshs. „000"
Received from Head Office	24,600	10 Ush/Ksh.	2,460
Purchase locally	56,400	12 Ush/Ksh.	4,700
	81,000		7,160

Head office current a/c	
Balance per head office records	15,000
Add debtors received by branch	35,000
	50,000

Unrealised profit

Goods from head office		2,460
Cost = $\frac{2,460}{1.25}$		(1,968)
	UPCS	492

Beta (EA) Ltd

Trading, profit and loss account
For the year ended 30 November 2005

	Head office Sh. „000"	Branch Sh. „000"	Combined Sh. „000"
Sales	390,000	160,000	550,000
Goods sent to branch	30,000	-	-
	420,000	160,000	550,000
Cost of sales	280,000	93,000	373,000
Less: goods from H/O			(30,000)
			343,000
Gross profit	140,000	67,000	207,000
Unrealised profit	(492)	-	(492)
	139,508	67,000	206,508
Expenses			
Exchange loss	-	48,840	48,840
Operating expenses	67,000	39,000	106,000
Depreciation			
Plant and equipment	10,000	5,000	15,000
Motor vehicles	10,000	-	10,000
Net profit	52,508	(25,840)	(26,668)

Beta (EA) Ltd
Balance sheet as at 30 November 2005

Equipment	135,000
Motor vehicles	40,000
	175,000
Current assets	
Inventories	46,668
Accounts receivable	30,000
Bank	16,000
	267,668
Equity and liabilities	
Share capital	192,000
Profit and loss	26,668
Current liabilities	
Accounts payable	49,000
	267,668

QUESTION FOUR

Business Purchase Account

	KUNI LTD Shs. „000"	MOTO LTD Sh. „000"		KUNI LTD Sh. „000"	MOTO LTD Sh. „000"
Bank overdraft	44,750		Land & Buildings	93,250	-
Creditors	77,000	13,000	Furniture	2,500	-
Loan	3,600	2,400	Cash	250	-
Purchase consideration	142,650	114,550	Debtors	32,000	54,000
			Stock	115,000	56,250
			Goodwill	25,000	20,000
	268,000	130,250		268,000	130,250

Partners Capital Accounts

	KUNI LTD Sh. „000"	MOTO LTD Sh. „000"		KUNI LTD Sh. „000"	MOTO LTD Sh. „000"
Shares in Kuni Ltd	118,750	23,900	Balance b/d	131,500	81,00
Shares in Moto Ltd	35,250	79,600	Goodwill	22,500	22,500
	154,000	103,500		154,000	103,500

Vendors Account

	Sh. „000"		Shs. „000"
Ord. Shares in Kuni Ltd.	142,650	Business Purchases A/C	
Ord. Shares in Moto Ltd.	114,850	Kuni Ltd.	142,650
		Moto Ltd.	114,850
	257,500		257,500

Bank Account

	KUNI LTD Sh. „000"	MOTO LTD Sh. „000"		KUNI LTD Sh. „000"	MOTO LTD Sh. „000"
12% Debentures	50,000		Balance b/d	44,750	
Issue of shares B Ltd & C Ltd	5,000	7,500	Debenture expense	1,750	
(Share application)			Preliminary exp	3,250	2,000
			Balance c/d	5,250	5,500
	55,000	7,500		55,000	7,500

OPENING BALANCE SHEET

	Kuni Ltd.		Moto Ltd.	
ASSETS	**Shs.**	**Shs.**	**Shs.**	**Shs.**
Non current assets				
Land and buildings		93,250		
Furniture		2,500		
		95,750		
Intangible assets				
Goodwill		25,000		20,000
Establishment costs		3,250		2,000
Debenture expenses		1,750		-
		30,000		22,000
Current assets				
Cash	250		-	
Bank	5,250		5,500	
Debtors	32,000		54,000	
Stock	115,000		56,250	
	152,500		115,750	
Less: Current liabilities				
Creditors	77,000	75,500	13,000	102,750
		201,250		124,750
Financed by:				
Share capital				
Ordinary shares of Shs. 10 each		147,650		122,350
Long term liabilities				
12% Debentures		50,000		
10% Debentures		3,600		2,400
		201,250		124,750

QUESTION FIVE

(a) (i) Defined contribution plans – are post-employment benefits plans under which an enterprise pays fixed contribution into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee services in the current and prior periods.

(ii) Terminal benefits should be recognized as a liability and an expense when and only when the enterprise is demonstrably committed to either:

(1) Terminate the employment of an employee or group of employees before the normal retirement date; or

(2) Provide terminal benefits as a result of an offer made in order to encourage voluntary redundancy.

(b) (i)

Treasure Motors Retirement Benefits Scheme

Statement of change in net assets for the year ended 30th June 2005

	Kshs.	Kshs.
Members contributions		250,200
Employers contributions		630,600
Total contributions		880,800
Pensions and commutations		(209,000)
Withdrawals from scheme		(15,000)
Net additions by members		656,800
Return on investments:		
Interest on investments	640,000	640,000
Other expenses:		
Management expenses		(7,000)
Net change in net assets		1,289,800
Opening accumulated fund as at (July 2004)		7,640,000
Net assets at 30 June 2005		8,929,800

Treasure Motors Retirement Benefits Scheme Statement of change in Net Assets for the year ended 30th June 2005

Assets	**Kshs.**
Premises	800,000
Quoted shares	3,000,000
Unquoted shares	2,500,000
Government securities	590,000
Off-shares investments	1,040,000
Fixed deposits	260,000
Current deposits	32,200
Receivables from employers	635,600
Income receivable	80,000
Payable to members	(8,000)
Net assets as at 30 June 2005	8,929,800
Funded by: -	
Opening Account fund	7,640,000
Change in net assets	1,289,800
	8,929,800

JUNE 2014 SUGGESTED SOLUTIONS

QUESTION ONE

Boulder Limited
Consolidated Balance sheet as at 31 March 2006

Non current assets	Sh Million		Sh Million
Property, Plant and equipment		2,957	
Goodwill			30
Other intangible assets (patents and copyrights)		9	
			2,996
Current assets			
Inventory	1,074		
Accounts receivable	1,542		
Cash	240		2,856
Total assets			5,852
Ordinary share capital			600
Revaluation reserves			156
Retained earnings			2,390
			3,146
Minority interest		1,244	
Shareholders funds			4,390
Current Liabilities			
Accounts payable	912		
Current tax	70		
Proposed dividends	480		1,462
Total equity and liabilities			5,852

Workings: (figures in sh Million)

PPE

rights			
Boulder	1,280	Depre FV adj.	
Rock	920	-P&L	1.08
Stone	700	-MI	1.92
Coc: FV adj	21.6		
MI FV adj	38.4	Bal c/d	2,957
	2,960		2,960

Patents & copying

Coc (36%x10)	3.6	Armortisation	
MT (64%x10) 6.4		-P&L	0.36
		M	0.64
		Bal c/d	9
	10		10

Cost of control

profit			
Inv in Rock	840	Rock: OSC	300
(900-60)		P&L	480
		G/W-P&L	60

Group retained

CoC: (Rock)	480	Boulder	1,970
MI: P&L (Rock)	520	Rock	1,300
CoC: G/W in Rock	60	Stone	480

Inv in stone (60%x750)	450	Stone: OSC	180
		P&L	165.6
		Fv adj PPE	21.6
		Invent.	7.2
		Patents	3.6
		Pre-acquisition Dividend	36
		G/will P$C (1/6x36)	6
		Bal c/d	30
	1,290		1,290

Coc:P&L (stone)	165.6	Dividends:	
MI P&L (stone)	307.2	From Rock	150
Dep. Fv adj			
PPE	1.08		
Patents	0.36		
Inventory sold	5.76		
G/will stone Impaired	6		
Balance c/d	2,390		3,936
	3,986		

MI

Inv Stone	300	Rock: OSC	200
Depreciation		P&L	520
FV adj: PPE	1.92	Rev Reserve	104
Patents	0.64	Stone OSC	320
Inventory sold	10.24	PL	307.2
		Fv adj:	
		1,090	
		PPE	38.4
		Inventory	12.8
		Patents	6.4
		Dividends from	
Balance c/d	1,244	Stone	48
	1,556.8		1,556.8

Inventory

Boulder	420	P&L-Sold	5.76
Rock	410	MI (64)x16)	10.24
Stone	240	Bal c/d	1074
Fv adj: COC	7.2		
MI	12.8		
	1,090		

Payables

Due to stone		Hand	390
Boulder	36	Rock	380
Rock	32	Stone	210
Balance c/d	912		
	980		980

Revaluation Reserve

MI (40%)	104	Balance c/d	260
Bal c/d	156		
	260		260

Account Receivables

Boulder	680	Due from Boulder	36
Rock	540	Rock	32
Stone	390	Bal c/d	1,542
	1,610		1,610

Proposed dividends

MI	48	Boulder	300
P&L	150	Rock	250
CoC: Pre-acq.	3.6	Stone	200
P& L; Postage	480		750
	750		

<u>Retained profit in Stone at acquisition</u>

	Sh Million
Bal c/d (1.4.06)	480
Add bank dividends	200
	680
Less: Profits for year	(240)
Balance B/d (1.4.05)	440
Profits for year (240-200) / 2	20
Retained profits Acquisition	460
Share of Boulder at 36%- COC	165.6

Note: The shareholding by Boulder in Rock is at 60% and effective shareholding by boulder in Stone is 36% = (60% x 60%).

QUESTION TWO

a) Statement of distribution of cash

		J	K	L	
Capital balance at 31/3/2006		410	247	236	
Add Life assurance fund		150	150	150	
Less motor lorry taken over		(106)	-	-	
Amount due to partners		454	397	386	
Bank balance at 31/3/2006	(1,786.5				
Joint assurance policies	450				
15/4/2006 realization	1,130				
30/4/2006 realization	1,792				
Less payment to creditors	522.5				
Cash available to partners 1,063					
Maximum loss 1063 – 1237 = (174)		(58)	(58)	(58)	
1st distribution on 30/4/2006		1063	396	339	328
Balance		NIL	58	58	58
15/5/2006 realization		1050			
Maximum (loss) gain 1050-174 = 876		292	292	292	
2nd distribution on 15/5/2006		1050	350	350	350

(6marks)

b) Partners Capital Accounts

	J	K	L		J	K	L
Drawings	260	150	140	bal b/d	520	260	240
				Interest on capital	26	13	12
Bal c/d 410	410	247	236	Share of profit (W6)	124	124	124
	670	397	376		670	397	376
Realization	106			Bal c/d	410	247	236
Bank	396	339	328	Joint life assurance fund	150	150	150
Bank	350	350	250	Realization gain	292	292	292
	852	889	678		852	889	678

(10 Marks)

c) Realization Account

Fixed assets	980	15/4/2006	Bank	1,130
Raw materials	815	30/4/2006	Bank	1,792
Work in progress	457	Capital a/c -	Jipcho	106
Accounts receivable	950	15/5/2006	Bank	1,050
Realization gain	876			
	4,078			4,078

(2 marks)

d) Bank Account

Debtors	2,250	Bal b/d	600
		Payables	450
		Wages	780
		General expenses	1,596.5
		Drawings (260+150+140)	550
		Joint life assurance	
Bal c/d	1,786.5	Policies premium	60

	4,036.5		4,036.5
Joint life assurance			
Policies	450	1/4/2006 bal b/d	1,786.5
Realization	1,130	Accounts payable	522.5
Realization	1,792	Capital account	1,063
Realization	1,050	Capital account	1,050
	4,422		4,422

(2 marks)
(Total: 20 Marks)

Workings:

W1) Receivables Account

Bal b/d	400	Bank	2,250
Sales	2,800	Bal c/d	950
	3,200		3,200

W2) Payables Account

Bank	450	Bal b/d	770
Bal c/d	522.5	Purchases	202.5
	972.5		972.5

W3) Raw material Account

Bal c/d	970	Used in production	357.5
Purchases	202.5	Bal c/d	815
	1,172.5		1,172.5

W4) Joint Life Assurance policies

Bal c/d	300	Bank	450
Bank	60		
Joint assurance fund	450		450

W5) Joint Life Assurance Fund

Capital account	450	Bal b/d	300
		Profit & loss	60
		Joint assurance policies	90
	450		450

W6) Trading, profit and Loss

Trading profit and loss account for the year ended 31/3/2006

Sales	2,800,000	
Customer deposits realized	820,000	3,620,000
Less cost sales		
Raw material consumed	357,500	
Direct wages	780,000	
Work in progress (start)	860,000	
Work in progress (end)	457,000	(1,540,500)
Gross profit		(2,079,500)
General expenses		(1,596,500)

Operating profit		483,000
Joint life assurance fund		60,000
Interest on Capital	Jipcho	(26,000)
	Kiptum	(13,000)
	Limo	(12,000)
Profit available for distribution equally		372,000

QUESTION THREE

a) Branch Stock Accounts

	Msa	Ksm		Msa	Ksm
	Sh000	sh000		sh000	sh000
Bal c/d	3,620	5,430	Cash sales	8,654	12,981
Debtors -					
Returns to br	88	132	Debtors –sales	490	735
Goods sent			Returns to HO		
From HO	8,240	12,360	-Debtors	24	36
			-Branch	144	216
			Transfer to other		
			Branches	400	600
			Good lost in transit		
			-Mark up	30	45
			Cost of stock	90	135
			Mark down goods	32	48
			Mark down goods		
			Bal c/d – full selling	2,000	3,000
			Price		
	11,948	17,922	market down	84	126
				11,948	17,922
					7marks)

b) Branch mark up accounts

	Msa Ksm	Ksm		Msa	
	Sh000 sh000	sh000		sh000	
Markup returns to HO			Bal b/d		
			(25/100xS.P)	905	1,357.5
-debtors	6	9	Markup on goods		
-branch	36	54	From head office	2,060	3,090
Transfer to other					
Branch	100	150			
Stock loss	30	45			
Mark down in spoilt					
Units	32	48			
Gross profit (bal)	2,252	3,378			
Bal c/d					
-selling price	500	750			
-on marked down					
Goals	9	13.5			
	2,965	4,447.5		2.965	4,447.5

Bal c/d = 25/100x2024 = 506
= 25/100x3036 = 759 (7 Marks)

c) Branch debtors accounts

	Msa	Ksm			Msa	
	Ksm					
	sh000	sh000			sh,000	
	sh,000					
Bal b/d	370	555	Cash	306		459
Branch stock a/c	490	735	return to branch		88	
	132					
(Bal)			Return to H/O		24	
	36					
			Bad debts		64	
	96					
			Balance c/d		378	
	567					
					<u>1290</u>	
					(2 marks)	

(d) Goods sent to branch accounts

	Msa	Ksm		Msa	Ksm
	sh 000	sh 000		sh 000	sh000
Return to HO-debtors	18	27	Goods sent by HO		
			75/100x	6,180	9,270
-branch	108	162			
Purchase (bal)	<u>6,054</u>	<u>9,081</u>			
	<u>6,180</u>	<u>9,270</u>		<u>6,180</u>	<u>9,270</u>
					(2 marks)

d) Lost stock account

	Sh 000		sh000
Branch stock a/c-Msa	90	Insurance/cashbook	150
Ksm	135	P& L (balance loss)	75
	225		225

QUESTION FOUR

Sundry creditors in order of priority

	Preferential	Unsecured	Deferred	Total
	Sh. 000	sh000	sh000	sh000
1. Assessed income taxes	120	185		305
2. Government rent	250	50		300
3. Wages to 5 employees	20	105		125
4. Salary to uncle	4	20		24
5. Employees NSSF	12	24		36
6. NCC taxes	20			20
7. Loan + interest from Kopesha			107.5	107.5
8. Other sundry creditors		1,640		1,640
	426	2024	107.5	2,557.5

b) Statement of Affairs as at 31st March 2006

Gross Liabilities	Liabilities (as stated and estimated by debtor)	Expected to Rank	Assets (as stated) and estimate		Estimated to Produce
Sh000		Sh000			Sh000
2,643.5	Unsecured creditors (w1)	2,643.5	Bank		20
			Furniture and fitting		500
1,200	Creditors fully secured	1,200	Motor vehicle		140
	Less value of Security	(1,800)			
			Stock		800
	Surplus as per contra	600	Debtors-	good	1000
2,100	Creditors secured on			doubtful	400
	Floating charge (w2)			bad	120
	Deduct as per contra	$\boxed{2,100}$			520
					Est. to produce
300					
426	Preferential creditors				
	Deducted as per contra	$\boxed{426}$	Private assets		28
					2,788
			Surplus as per contra		600
					3,388
			Deduct preferential Creditors		(426)
					2,962
			Creditors secured by Floating charge		(2,100)
			Deficiency account		1,781.5
6,369.5		2,643.5			2,607.5

c) Deficiency Account

	sh 000		Sh000
Liabilities as at 1 April 2005	230	Loss for the year	830
(W3) Freehold land	550	Furniture and fittings	210
Private assets	28	Motor vehicle	150
Deficiency	1,781.5	Stock	400
		Bad debts	220
		Drawings	560
		Private obligations	12
		Interest on mortgage	200
	2,589.5		
		Interest on-Kopesha	7.5
			2,589.5

W2 (secured by floating charge)

Loan from KCB	1,000	
Bank overdraft	1,100	2,100

W1 Unsecured creditors

Sundry creditors	2,024
Deferred creditors	107.5
Personal obligations	12
SACCO Loan	500

2,643.5

W3: Excess of assets over liabilities 1/4/2005

Net assets on 31 March 2006 5550-6150 =	(600)
And losses to 31 March 2006	(830)
	230

QUESTION FIVE

a) For an oral will to be valid:

i) The testator must have died within 3 months of the date of making the will.

ii) It must have been made before at least two persons of sound mind and full age.

iii) Where a written will existed such a will has to be revoked otherwise the oral will be invalid to the extent of the contradiction of the written will.

iv) Members of armed forces/marine who have proceeded for active field of military operation oral will is valid provided the testator dies in the same period of active service.

v) There must be no conflict in the evidence of witness otherwise the oral will not be valid until by competent independent witness.

b) Types of legacies

i) Special legacy- a testamentary gift of a particular property of a testator, identified by sufficient description.

ii) General legacy- a legacy provided from the general estate of a testator which is either specific or general.

iii) Demonstrative legacy- a legacy manifested through intention that the gift was to be satisfied primarily out of specified fund or a specified part of the testator property.

iv) A gift residue- if property is not given from the specific or general legacy but made from the residue of the testator estate after all debts and other liabilities expenses and other legacies have been paid.

(4 marks)

c) Distribution statement as at 30 May 2006

	Total	Kadenge sh000	Mulamba sh000	Anunda sh000	Nasimiyu sh000
Balance	sh000				
Add back					
Advance	9,000				
Allocated	1,000				
Equally	10,000	2,500	2,500	2,500	2,500
Less advance	(1,000)	(500)	(500)	----	----
Distribution	9,000	2,000	2,000	2,500	2,500

	Total Sh000	sh000 Nafula	sh000 Misati
Due to Nasimiyu			
As per stripes rule	2,500		
Add back advance	400		
Allocated equally	2,900	1,450	1,450
Less advance	(400)	(400)	----
Distribution to grand children	2,500	1,050	1,450

DECEMBER 2014 **SUGGESTED SOLUTIONS**

QUESTION ONE

a) Habari Ltd and its subsidiary
Consolidated income statement for year to 30 September 2006

	Sh,000	Sh,000
Revenue		66,000
Cost of sales		46,100
Gross profit		19,900
Expenses		
Distribution cost	3,575	
Administration expenses	2,775	
Finance cost	75	(6,425)
Profit before tax		13,475
Income tax expense		(3,450)
Profit after tax		10,025
Profit due to minority interest		(330)
Profit attributable to holding co		9,695
Dividends aid		(1,000)
Retained profit for the year		8,695
Retained profit b/f		17,125
Retained c/f		25,820

b) Habari Ltd
Consolidated Balance Sheet as at 30 September 2006

	Sh,000	Sh,000
Non current assets		
Property, plant and equipment		29,920
Goodwill (800- 200)		600
		30,520
Current assets		
Inventory	7,500	
Trade receivables	6,850	
Cash at bank	7,400	21,750
Total assets		52,270
Ordinary share capital		10,000
Retained profits		25,820
		35,820
Minority interest		2,600
Shareholders funds		38,420
Non current liabilities		
10% debentures		1,000
Current liabilities		
Trade payables	9,950	
Current tax	2,900	12,850
		52,270

Workings

1. Income statement

	Revenue Sh,000	Cost of sales Sh,000	Dist cost Sh,000	Admin exp Sh,000	Finance cost Sh,000	Income tax Sh,000
Revenue : Habari	60,000	42,000	3,500	2,500	-	3,000
Salama (9/12)	18,000	15,000	75	75	150	450
Inter co.sales	(12,000)	(12,000)				
Depr on plant		600				
Unrealised profit		500				
Goodwill impaired (800 x 25%)				200		
Interco. Interest (½ x 150)					75	
	<u>66,000</u>	<u>46,100</u>	<u>3,575</u>	<u>2,775</u>	<u>75</u>	<u>3,450</u>

2. Goodwill

COC

	Sh,000		Sh,000
Cost of inv	10,280	OSC (80% X 2000)	1,600
		RP (80% X 5900+625)	5,220
		FV(80 X (3.2m)	2,560
		Div (80% x 3/12 x 500)	<u>100</u>
		Goodwill	<u>800</u>

3. Due to minority interest (profit)

	Sh,000
Profit after tax in Salama	3,000
For nine months	2,250
Less; additional depreciation	(600)
	1,650
MI"s share at 20%	<u>330</u>

4. Balance sheet

	PPE Sh,000	INVENTORY Sh,000	RECEIVABLES Sh,000	PAYABLES Sh,000
Habari	19,300	5,000	4,200	7,500
Salama	8,000	3,000	3,400	3,200
Fv adjustment	3,200			
Depreciation	(600)			
Unrealised profit		(500)		
Interco. Balance			(750)	750
	<u>29,920</u>	<u>7,500</u>	<u>6,850</u>	<u>9,950</u>

5. Minority interest in the balance sheet

COC

	Sh,000		Sh,000
Depreciation (20% x 600)	120	OSC (20% X 2000)	400
		RP (20% x 8400)	1,680
		FV(80 X (3.2m)	640
			2,720

QUESTION TWO

a) Bara Ltd

Income statement for the year ended 31 October 2006

	Sh,000	Sh,000
Revenue		278,400
Cost of sales		(115,700)
Gross profit		162,700
Other incomes: investment income		4,500
		167,200
Expenses		
Distribution costs	10,000	
Administrative expenses	5,500	
Finance costs	10,000	(25,000)
Profit before tax		141,700
Income tax expense		(29,900)
Profit for the period		111,800

b) Bara Ltd

Statement of changes in equity for the year ended 31 October 2006

	Ordinary Shares	Revaluation reserve	Retained profit	Total
Balance as at 1.11.05	150,000		119,500	269,500
Profit for the period			111,800	111,800
Revaluation of PPE		45,000		45,000
Dividends paid			15,000	15,000
Balance as at 31.10.06	150,000	45,000	216,300	411,300

c) Bara Ltd

Balance Sheet as at 31 October

	Sh,000	Sh,000
Non current assets		434,100
Property, plant and equipment		90,000
Investments		524,100
Current assets		
Inventory	43,200	
Accounts receivables	53,200	96,400
Total assets		620,500
Equities and liabilities		
Ordinary share capital		150.000
Reserves		
Revaluation reserve		45,000

Retained profit		216,300
Shareholder funds		411,300
Non current liabilities		
8% debentures	50,000	
Deferred tax	14,100	
Obligation under finance lease	55,000	119,000
Current liabilities		
Accounts/payables	33,400	
Bank overdraft	5,400	
Accrued loan interest	1,000	
Obligation under finance lease	22,000	
Current tax	28,300	90,100
Total equity and liabilities		620,500

Workings:

i. **Cost of sales**

	Sh,000
Opening inventory	37,800
Purchases	78,200
Depreciation: buildings	5,000
Plant: owned	19, 500
Leased	18,400
Closing inventory	43,000
	115,700

ii) Finance lease	Sh,000
Net obligation at start (92-22)	70,000
Accrued interest at 10%	7,000
Total outstanding at year end	77,000
Current liability (next inst.)	22,000
Non current: balance	55,000

iii) PPE / depreciation

Land and buildings

At the date of revaluation land and buildings had a net book valus of Sh 210 million (270-60). With a revaluation of sh million, this gives a surplus of Sh 45 million. (255-210)

The accumulated depreciation (60m) represents a 15 years revaluation at Sh 4 million each. The remaining life is 35 years thus depreciation of buildings will now be 175/35 years

Summary PPE is made up as follows

	Cost/evaluation	depreciation	NBV
	Sh 000	Sh 000	Sh 000
Land and buildings	255,000	(5,000)	250,000
Plant owned	156,000	(45,500)	110,500
leased	92,000	(18,400)	73,600
			434,100

QUESTION THREE

a) i) Financial information is said to be relevant if it would influence economic decisions. This is achieved if the information has predictive or confirmatory value. Reliable financial information is achieved when information provided is free from material error and bias and can be depended upon by users to represent or could reasonably be expected to represent.

ii) Five attributes of reliable information:

1. Faithful representation – the information must represent faithfully the transaction and other events it either purports to represent or could reasonably be expected to represent.
2. Substance over form – it is necessary that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.
3. Neutrality – the information contained in financial statements must be neutral, that is, free from bias.
4. Prudence – uncertainties should be recognised by disclosure of their nature and the extent and by the exercise of prudence in the preparation of financial statements. Prudence is the degree of caution required in making estimates such that gains or assets are not overstated and losses and liabilities are not understated.
5. Completeness – information in financial statement must be complete within the bounds of materiality and cost.

b) 1)

	A&B Advocates Sh,000	M and NAssociates Sh 000		A& B Advocates Sh 000	M and Associates Sh 000
Motor vehicles	10,000	9,000	Motor vehicles	9,000	8,000
Office equipment	4,000	3,000	Office equip	3,500	3,000
Goodwill	6,000	5,000	Goodwill	7,500	5,000
Investments	7,500		Accounts		
Accounts receivable	20,000	13,000	Receivables	19,000	12,350
				39,000	28,350
			Cash		
			Investment	8,000	
				47,000	28,350
			Loss		
			A3	300	
			B2	200	
			M2		1,100
			N1		550
	47,500	30,000		47,500	30,000

(4 marks)

	A	B	M	N		A	B	M	N
	Sh „000"	Sh „000"	Sh „000"	Sh „000"		Sh „000"	Sh „000"	Sh „000"	Sh „000"
Realisation account	300	200	1,100	550	Balance b/f	25,000	15,000	15,000	10,000
Cash				1,950	Cash	5,300	7,700	1,100	
Transfer to Able and mine Advocates	30,000	22,500	15,000	7,500					
	30,300	22,700	16,100	10,000		30,300	22,700	16,100	10,000

iii) Cash Accounts

	A&B Advocates Sh,000	M and N Advocates Sh 000		A& B Advocates Sh 000	M and N Advocates Sh 000
Balance b/d	2,500		Balance		1,500
Realisation a/c			Accounts		
Investment	8,000		Payable	5,000	3,500
Capital - A	5,300		Client a/c	5,000	
B	7,700		Capital N		1,950
M		1,100	Able and Mine		
Able and mine			Advocates	13,500	
Advocates		5,850			
	23,500	6,950		23,500	6,950

iv) Able and Mine Advocates

	A &B Advocates Sh,000	M and N Associates Sh 000		A& B Advocates Sh 000	M and N Associates Sh 000
Realisation a/c	39,000	28,350	Cash		5,850
Cash	13,500		Capital a/c		
			A		
			B		
			M		15,000
			N		7,500

Dr
900,000
100,000
500,000

	52,500	28,350		52,500	28,350

QUESTION FOUR

a) Journal entries

Cr

Dr Equipment

Dr branch current
account Dr good will
Cr. Cost of investment in branch 1,500,000
To eliminate the cost of investment in branch from head office books

Dr inventories	100,000	
Cr head office current account		100,000
To records the inventories acquired in the branch		
		(2 marks)

b) Fast Lane Ltd
Trading and profit and loss accounts for the year ended 31/10/2006

	Head office Sh,000	Kitui branch Sh 000	Total Sh 000
Sales	5,406	3,180	8,586
Goods sent to branch	2,280		
	7,686	3,180	8,586
Less cost of sales			
Opening inventory	1,420	100	1,520
Purchases	6,380	810	7,190
Goods from head office		2,280	
Closing inventory	(1,820)	(492)	(2,230)
	5,980	2,698	
Gross profit	1,706		2,106
Expenses			
Provision for Un real. profit	(82)		
Operating expenses	(1,138)	(365)	(1,503)
Depreciation	(140)	(180)	(320)
Net profit	346	63	283

Computation of closing stock

	Head office	Branch
Opening inventory	1,420	100
Purchases	6,380	810
Goods sent/received	(1,900)	2,280
Goods available	5,900	3,190
Cost of goods		
Sold 5406/1.325 (x 1.2)	(4080)	
(100 + 810) +		
(1974.25/1.325 x 1.2		2,698
Closing inventory	1,820	492

(3180 – (100 x1.325 + 810 x 1.325)= 1974.25

Unrealised profit on branch closing stock $\frac{492}{1.2} \times 0.2 = 8.2$

Fast lane Ltd
Balance sheet as at 31/10/2006

	Sh."000	Sh,000
Non current assets		
Property plant and equipment (950 + 900 = 250-320)		1,280
Good will		500
		1,780
Current assets		
Inventory	2,230	
Balance at bank	410	
Cash in transit	140	2,780
		4,560

Share capital	330
Retained profit (3600 + 283)	3,883
	4,213
Current liabilities	
Accounts payable 182+165	347
	4,560

QUESTION FIVE

a)

Moses Waigwa (Deceased)
Distribution statement

Assets	Sh 000	Sh.000
Freehold house		900
Furniture & personal effects		120
Ornamental Collection		12
12,000 Ordinary shares in Kenya Company		210
Sh. 100,000 nominal 10% Treasury stock 2008		92
Due from insurance company		114
Cash in hand and bank balance		262
		1,710
Specific legacies		
To wife Grace, Freehold house	900	
Furniture & other personal effects	120	
To daughter Zippo rah, 10% Treasury stock	92	
To niece Sarah, Shares of Kenya company	210	
To grandson Jonathan, Ornamental collection	12	(1,334)
		376
General legacies		
To son Maina	200	
To Kamau"s estate	200	
To friend, Peter Mwaro	30	
To nephew Richard	40	
	470	

As the total amount payable on general legacies is more
Than the amount available, they should abate rateably:

To son Maina (200/470 X 376)	160	
To Kamau"s estate (200/470 X 376)	160	
To friend, Peter Mwaro (30/470 X 376)	24	
To nephew Richard (40/470 X 376)	32	(376)
		0

i) Peter Mwaro : where two legacies are given to the same person in the same will, there is a presumption that both legacies are payable where they are of unequal amounts, they are given for different reasons or they are different in nature, ie a pecuniary legacy and a gift of residue. Thus Peter Mwaro is entitled to both the Sh

20,000 and the Sh. 10,000 legacy, although both abate proportionately with the other general legacies due to insufficiency of assets.

ii) Zipporah: An error made in the will does not negate the gift. The gidt to Zipporah will therefore pass and the correction can be made in the will.

iii) Richard: the gift of Sh 40,000 payable out of my holding of 9% treasury stock 2007 is a demonstrative legacy. As the fund from which the Sh 40,000 is not sufficient the gift becomes a general legacy, and abates with the other general legacies accordingly.

iv) Sarah : A specific legacy fails by ademption if its subject matter has ceased to exist as part of the testators estate at death. However, ademption does not occur if there has been no substantial change in the nature of the gift. Thus the change of the par value of the shares of Kenya Company Ltd to death will not cause the gift to adeem, and Sarah is entitled to the 12,000shares held by Moses in the company at the date of death

v) Kenneth: where in the same accident the testator dies and the asset which is the subject matter of a gift is destroyed, the asset is deemed to have perished before the testator. Thus, the specific gift of my motor car will adeem and Kenneth is not entitled to the proceeds of the insurance claim.

Part III: Comprehensive Mock Examinations

QUESTIONS - MOCKS

TOPICAL ANALYSIS

The paper consists of five compulsory questions, each carrying between 15 to 25 marks, but mostly averaging 20 marks. The following is the topical analysis of the revision questions:

PAPER 1

Question 1 Consolidated financial statement	(Total: 25 marks)
Question 2 Partnerships - basic	(Total: 20 marks)
Question 3 Branch accounting	(Total: 20 marks)
Question 4 Bankruptcy accounts of a partnership	(Total: 20 marks)
Question 5 Trust accounts for Minors	(Total:15 marks)

PAPER 2

Question 1 Published Financial Statements	(Total: 25 marks)
Question 2 Partnership accounts:	(Total:20 marks)
Question 3 Branch Accounting	(Total: 20 marks)
Question 4 Liquidation accounts.	(Total: 20 marks)
Question 5 Executorships	Total: 15 marks)

PAPER 3

Question 1 Consolidated financial statement	(Total: 22 marks)
Question 2 Partnerships and branch accounting	(Total: 20 marks)
Question 3 Bankruptcy of an individual.	(Total: 20 marks)
Question 4 Trust Accounts	(Total: 18 marks
Question 5 Retirement benefit schemes final accounts	(Total: 20 marks)

PAPER 4

Question 1 Published financial statements	(Total: 20 marks)
Question 2 Partnerships	(Total: 20 marks)
Question 3 Branch Accounts:	(Total: 20 marks)
Question 4 Consolidated cash flow statement.	(Total: 20marks)
Question 5 Executorships	(Total: 20 marks

PAPER 5

Question 1 Consolidated Financial statements	(Total: 25 marks)
Question 2 Partnerships.	(Total: 20 marks)
Question 3 Branch accounts	(Total: 20 marks)
Question 4 Liquidations accounts	(Total: 20 marks)
Question 5 Trust accounts.	(Total: 15 marks)

PAPER 1

QUESTION ONE

Mtito Limited purchased 80% of the ordinary shares of Andei Limited on 1 May 1996. On 30 September 1996, the trial balances of the two companies were as follows:

	Mtito Ltd.	Andei Ltd.
	Sh."000"	Sh."000"
Cash at bank	-	11,500
Debtors	62,300	51,600
Dividend: Interim paid	4,500	3,000
Expenses (including depreciation of fixed assets)	184,700	123,600
Freehold land and buildings (net book value)	25,500	18,900
Investment in Andei Limited	94,260	
Motor vehicles (net book value)	6,700	4,900
Purchases	375,400	335,200
Plant and machinery (net book value)	28,900	21,600
Stock	22,100	17,600
Taxation: instalment tax paid	9,100	6,380
	813,460	594,280
Bank overdraft (secured on land and buildings)	6,700	
Creditors	38,200	17,100
Sales	586,600	480,000
Share capital: Authorised, issued and fully paid		
Ordinary shares of Sh.10	60,000	20,000
Profit and loss account	121,960	77,180
	813,460	594,280

Additional information:

1. Closing stock was Sh.24, 200,000 in Mtito and Sh.19,200,000 in Andei.
2. The turnover and expenses in Andei accrued evenly over the year; the rate of gross profit was constant throughout the year.
3. Mtito paid its interim dividend on 15th May 1996; Andei paid its interim dividend on 31 March 1996. Mtito has not yet accounted for any dividend receivable from Andei.
4. Between 1 May 1996 and 30 September 1996, Mtito sold gods to Andei. These goods had cost Mtito Sh.30 million. Mtito earned a gross profit of 37.5% on the selling price of these goods. At 30 September 1996, one sixth of these goods were included in the stock of Andei. Included in the debtors figure for Mtito was Sh.7,200,000 from Andei: Mtito"s account in Andei"s books agreed with this figure.
5. The self assessment tax returns of Mtito and Andei show the corporation tax charge for the year at Sh.10,020,000 and Sh.7,980,000 respectively; both companies have paid instalment tax on the preceding year basis.
6. The directors have proposed that Mtito should pay a final dividend of Sh.6 million and Andei Sh.3 million.
7. Mtito"s accounting policy with regard to goodwill is to carry it as an asset and amortise it over 60 months, on a straight line basis. Mtito removes the whole amount of any unrealised profit on closing stock from the stock and from the company which made the profit, in the latter case adjusting the minority interest, if appropriate. Mtito incorporates the results of operations of Andei as from the

date of acquisition, and carries any dividends to minority interests as a current liability.

Required:

A consolidated profit and loss account for the year ended 30 September 1996 (including reconciliations of the retained profit for the year and carried forward) and a consolidated balance sheet as at 30 September 1996. **(Total: 25 marks)**

QUESTION TWO

K. Kimeu and M. Maingi are in partnership as manufacturers of Tick Toys, Kimeu being responsible for the factory and Maingi for the sales. All completed toys are transferred from the factory to sales department at agreed price. Profits are shared' on the following basis:

	Factory	Sales Department
Kimeu	80%	40%
Maingi	20%	60%

The following trial balance has been extracted from the books at 31 March 1992:

	Sh.	
Freehold factory at cost	1,053,750	
Factory plant, at cost	843,750	
Provision for depreciation 1 April 1991		151,250
Delivery van, at cost	401,250	
Provision for depreciation 1 April 1991		86,250
Stocks at 1 April 1991		
Raw materials	100,700	
Work-in-progress	85,000	
Toys completed (30,000 at Sh.40)	1,200,000	
Sales (45,500 toys)		2,775,500
Purchases of raw materials	716,250	
Factory wages	375,500	
Sales Department wages	150,750	
Expenses:		
Factory	301,750	
Sales Department	250,500	
Provision for doubtful debts 1 April 1991		40,000
Trade debtors and creditors	450,000	
Bank overdraft	176,200	
Capital accounts:		
Kimeu		1,400,000
Maingi		1,425,000
Drawings:		
Kimeu	150,000	
Maingi	125,000	
	6,204,200	

Additional information:

(i) 38,000 toys at Sh.45 each were manufactured and transferred to Sales Department during the year. Toys in stock at the end of the year were to be valued at Sh.45

each. Stock of raw materials was Sh 79,500 and work-in-progress was valued at prime cost of Sh.126,250 at 31 March 1992.

(ii) Accrued expenses outstanding at 31 March 1992:

	Factory	Sales Department
	Sh.	Sh
Expenses	52,250	27,000
Factory wages	7,000	-

(iii) Provision for depreciation is to be made as follows:

- Factory plant 10% p.a. on cost
- Delivery van 20% p.a. on cost.

(iv) The general provision for bad debts is to be maintained at 10% of the trade debtors.

Required:

Manufacturing, trading and profit and loss accounts for the year ended 31March 1992 and a balance sheet as at that date. **(Total: 20 marks)**

QUESTION THREE

Car Mart Kenya (Kenya) Limited has a Head Office in Nairobi and branches in all the main towns in Kenya. Each branch maintains its own account; all accounts are maintained on a computerised system. The current accounts between the Head Office and the Nakuru branch are not in agreement at the company"s year end, 30 November 1994. The following information is available:

1. The Head Office current account balance as per the Nakuru branch accounts is a credit balance of Sh.8,946,000 after debiting the Nakuru branch loss for the year of Sh.1,680,000.
2. All fixed assets (belonging to the Head Office and all branches) are carried in the Head Office books. The Nakuru branch had purchased wheel-balancing equipment for Sh.2.5 million on 14 December 1993; this figure has erroneously been debited into the branch stock account. Although this had been done, the branch accountant had correctly accounted for the depreciation charge for the year in the amount of Sh.250,000. It was only when the Head Office accountant stated „I cannot provide depreciation where there is no asset" that the matter came to light. Neither the assetnor the depreciation has been entered in the Head Office books.
3. A Nakuru farmer had paid to the Nakuru branch the amount he owed the Head Office, namely, Sh.180,000. The branch accountant had credited the branch debtors control account with this figure. The Head Office had been unaware that this amount had been paid.
4. The Head Office had paid the branch"s insurance premiums on 1 June 1994 in the amount of Sh.240,000. The Head Office accounted for this item correctly; the only entry in respect of this payment in the branch books was a debit in the Branch Profit and Loss Account of Sh.120,000 and the appropriate corresponding credit entry.
5. The branch had sent one cheque for Sh.212,000 to the Head Office on 29 October 1994 and another for Sh.328,000 on 28 November 1994; the latter cheque had erroneously been credited to the Nanyuki branch account; there was no trace of the former cheque, but the Head Office accountant had put the amount into a cash in transit account as if it had been received from the Bungoma branch.

6. Goods had been sent to the Nakuru branch at cost on 28 November 1994 in the amount of Sh.800,000. These goods were not received in the branch until 2 December 1994 and were not included in the stock count performed on 1 December 1994. The Head Office raised the invoice 4 days after the delivery note had been raised, but it has been decided to account for it correctly, since these goods were not included in the Head Office year-end stock take.
7. An examination of the invoice raised on the Nakuru branch revealed that 6 invoices were at 20% above cost rather than at cost. These invoices totalled Sh.3,636,000. All the goods included in these invoices had been sold by the branch at the correct selling price.
8. Some spares which were valued at Sh.240,000 had been returned by the branch to the Head Office. These had been received into the Head Office stores but no entry had been made in the Head Office books.

Required:

a) Journal entries to enable the Nakuru Branch accounts and the Head Office accounts to be corrected in respect of these facts. (16 marks)

b) Compute the correct Nakuru Branch Profit or loss. (4 marks)

(Total: 20 marks)

QUESTION FOUR

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 1996.
The assets and liabilities of the joint and separate estates on that date were as follows:

	Book Value			Estimated Realisable Values		
	Jaribio	Akili	Bidii	Jaribio	Akili	Bidii
	Sh. „000"	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
	52,680	10,600	14,150			

	Jaribio	Akili	Bidii
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
	52,680	10,600	14,150

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
.

QUESTION FIVE

Kena, Limo and Mara had been orphaned when both their parents died in a bus accident in April 1992. Their uncle, Mr. Barua, a stockbroker on the Nairobi Stock Exchange, organised a harambee for them in June 1992 and raised Sh.1, 980,000. He invested this amount as follows:

	Sh.
9,600 Sh.10 Ordinary Shares in KAB Ltd.	432,000
12,600 Sh.10 Ordinary Shares in BBB Ltd.	756,000
13,200 Sh.10 Ordinary Shares in TEA Ltd.	792,000
	1,980,000

He established an accumulation and maintenance trust to hold these investments on behalf of the children. The trust had a wide investment clause. He ruled that accounts be made up to 31 May each year. When each child reached the age of 21, the trustees were to transfer to him his share of the fund at that date. Kena turned 21 years on 31 May 1996.

The balances on the Accumulation Accounts of Kena, Limo and Mara at 1 June 1995 were Sh.207, 900, Sh.103,950 and Sh.34,650. To this date, the trustees had used accumulated income to purchase 5,775 Sh.10 Ordinary Shares in TEA Ltd. On 1 June 1995, there was no cash in the income account in the bank.

In the year to 31 May 1996, Sh.222, 750 was received from Capital Investment and Sh.62,370 from Accumulation Investments and maintenance payments made on behalf of Kena, Limo and Mara were Sh.77, 000, Sh.81, 000 and Sh.94,000, respectively. On 31 May 1996, the market values of the shares in KAB Ltd., BBB Ltd and TEA Ltd, were Sh.60, Sh.80, and Sh.70 respectively.

Kena was to receive 10,000 Sh.10 Ordinary Shares in BBB Ltd. and the balance due to him on capital would be made up of shares in KAB Ltd. Out of the accumulation assets, Kena was to receive Sh.32, 222 in cash and the balance in shares in TEA Ltd.

Required:

The beneficiaries" accumulation accounts for the year ended 31 May 1996 and distribution statements for the capital and accumulation assets as at 31 May 1996. (15 marks)

PAPER 2

QUESTION ONE

The year end of Veneering Manufacturers Ltd is 30 June. The trial balance at 30 June 19X9 was as follows:

	£	£
5.6% 100,000 Redeemable preference shares of £1 each fully paid.		100,000
400,000 ordinary shares of £1 each (authorized £500,000)		400,000
Freehold land and buildings, July 19X8 cost	414,900	
Additions during the year	20,000	
Plant and equipment (cost, £240,000) – see note	120,000	
Office furniture (cost, £30,000)	22,000	
Inventory of raw material, July 19X8	93,200	
Inventory of finished goods July 1 19X8	12,700	
Work-in-progress July 19X8	9,200	
Debtors	107,600	
4% debenture (repayable at par, January 1 19X22)		150,000
Debenture interest, half year to December 19X8 (gross), paid on January 1 19X9	3,000	
Dividends and interest:		
From unquoted investments receive May 1 19X9		700
From quoted investments received June 30 19X9		3,000
Share premium account		136,400
Unquoted investment at cost	32,000	
Quoted investments at cost (market value £71,000)	60,200	
Retained profits – balance July 1 19X8		30,900
Cash at bank and in hand	182,920	
Creditors		78,580
Sales		791,000
Purchases	319,600	
Carriage inwards	16,000	
Bank interest	2,900	
Wages and national insurance (factory)	137,900	
Plant hire (internal telephone system)	1,300	
Rates	5,000	
Repairs to premises	600	
Administrative salaries (including directors" £30,000)	61,300	
Salesmen"s salaries (including directors" £40,000)	100,000	
Postage and telephone	1,800	
Printing and stationery	400	
Legal and professional charges	800	
Advertising	1,700	
Directors" fees	600	
Bank charges	100	
Salesmen"s commissions	5,200	
Power and lighting (factory)	6,700	
Insurances – factory	7,200	
Insurances – office	400	
Repairs to plant	8,500	
Preference share dividend for half-year, due and paid on January 1 19X9	2,800	
Tax paid	900	
Provision for corporation tax, payable January 1 19X0		30,240
Deposit interest received		38,600
	1,759,420	1,759,420

The following adjustments are required:

1. Accruals:

	£
Power and lighting	2,400
Salesmen"s commissions	1,600
Auditors" remuneration, including expenses	1,000
Doubtful debts provision	2,500

Depreciation
Plant and equipment 10% straight-line on cost
Office furniture 10% on reducing balance
Corporation tax on profits for the year estimated at £67,000.
A final ordinary dividend of 5% (payable 31.7.19X9) is to be provided for.

Closing Inventory	
Raw materials	76,400
Work-in-progress	12,800
Finished goods	40,100

7. Prepayments:

Factory insurances	1,100
Rates	1,200

8. The income tax position is:

INCOME TAX ACCOUNT

19X9	£	19X9	£
April 14 Bank	900	Jan 1 Debenture interest (tax deducted)	900
June 20 Tax deducted from investment income	900	June 30 Corporation tax account	900
	1,800		1,800

9. Corporation tax payable on 1 January 19X10, has been agreed at £28,840.
10. At June 30 19X9, the company had placed contracts for heavy machinery for £80,000 and the Board has authorized, but not yet placed, a contract for a new storeroom for £30,000.
11. During the year, the company acquired new plant for £10,000 and sold obsolete plant at written-down value (cost £5,000; accumulated depreciation, £4,000). There were no acquisitions or disposals of office furniture.
12. The unlisted investments relate to a 3% shareholding in a private company.
13. There is no substantial difference between the purchase price or product costs of closing stocks,
 and their replacement cost or most recent prices at the balance sheet date.
14. The historical cost of land and buildings at 1 July 19X8 was £200,000.
15. The company acquired the business of G Huyton & Co on 18 August 19X9 for consideration in cash amounting to £139,500.
16. Staff details
 These details include relevant information relating to directors.
 i. Administrative salaries include £4,017 in respect of social security costs and £3,675 in respect of other pension costs. Respective figures for salesman"s salaries are £7,095 and £6,042; for factory wages and national insurance, £10,538 and £8,473.
17. Directors" emoluments
 Director"s emoluments, exclusive of pension contribution are £56,690.

Required:

a. Prepare the published income statement for year ended 30 June 19X9 classifying expenses by function.
b. Prepare the published balance sheet as at 30 June 19X9.
c. The relevant notes to the accounts.

(Total: 25 marks)

QUESTION TWO

Banjo, Harpa and Viola have been working in partnership as architects for several years. At 1 September 19 7 summaried balance sheet showed:

Capital Accounts	Shs.		Shs.
Banjo	720,000	Studio	450,000
Harpa	450,000	Motor cars	720,000
Viola	360,000	Equipment	180,000
		Net current assets	180,000
	1,530,000		1,530,000

The partnership agreement allows for 15% per annum interest on capital and profit or loss shared between Banjo, Harpa and Viola in the ratio 5:4:3, respectively. Viola is guaranteed a minimum of Shs.559,000 per annum in addition to her interest on capital.

Banjo retired on 28 February 19 8, on which date the goodwill was valued by an agreed method at Shs.1,080,000. A goodwill account is not to be maintained in the books. Banjo took over the car he had been using – its book value at 1 September 19 7 was Shs.270,000 and agreed valuation at 28 February 19 8 was Shs.207,000. Harpa and Viola continued in partnership, sharing profits or loss equally after allowing interest on capital at 15% per annum as before and with no guarantee share toViola.

Fees earned were Shs.1,080,000 for the first half-year and Shs.1,400,000 for the second half. The operating expenses were Shs.450,000 and Shs.350,000 for the two half-years respectively. Depreciation on the cars is charged at 20%, on the equipment at 10% per annum on book values.

At 28 February 19 8 Harpa agreed to purchase the studio for Shs.990,000 cash and then to lease it back to the new partnership for Shs.150,000 per annum. The cash was partly used to repay Banjo all but Shs.360,000 of the amount owing to him, interest of 18% per annum being paid on that balance. The profit on the studio was credited to the partnership" capital accounts. Harpa and Viola withdrew Shs.720,000 and Shs.675,000 respectively during the year.

Required:

Prepare the partners" capital accounts, the profit and loss account for the year ended 31 August 19 8 and a balance sheet at that date. **(Total: 20 marks)**

QUESTION THREE

Sir Charles' is a fashionable men's clothing store with a Head Office in Mombasa and branches all over Kenya. Books are not maintained in the branches: data is sent by Kenpack Services Ltd. from the branches to a head office computer in Mombasa. A computer program has been developed by Sir Charles' to write up the traditional accounts of each branch in the usual way. The following data relates to the Kisumu branch. All prices quoted are selling prices.

		Sh.' 000'
1 July 1995	Opening stock (at Head Office cost plus 50% on cost: goods with a normal selling price of Sh.600,000 had with the authority of the Head Office been marked down by 15°/Q).	6,210
Transactions to 30 June 1996	Goods received by branch from Head Office (at cost plus 50%)	71,040
	Goods returned to Head Office (including one fifth of the opening stock of marked down goods)	1,470
	Cash sales (these include the remainder of the opening stock of marked down goods and one half of goods received in the year at a selling price of Sh.720,000 marked down by 50% to clear them - the other half is included in closing stock at the year end) - to general public	38,592
	Credit sales (to other retailers)	27,990
	Retailer customer returned goods to Kisumu branch	186
	Goods received from Kisii branch during the year	246
	Goods sent to Kitale branch during the year	321
	Retailer customer returned goods to Head Office in Mombasa	522
	Cash stolen in transit to the bank on 21 June 1996	129
	Goods stolen on the night of 9 March 1996	420

The stock-take carried out on 1 July 1996 confirmed that the book value of closing stock was correct. Kisumu branch expenses amounted to Sh. 19,200,000.

Required:

To test the correctness of the computer program, the chief accountant asks you to write up the Kisumu branch stock account and the Kisumu branch mark-up account, and a memorandum trading and profit and loss account for the year ended 30 June 1996.

(Total: 20 marks)

QUESTION FOUR

What are the duties of an Interim Liquidator? How do they differ form those of a Receiver and Manager?(6 marks)

As a result of serious problems with its export market, Nga"aki Stores Limited went into voluntary liquation on 1 May 1992. The interim liquidator provided the following information;

The assets of the company including machinery realized Shs.2,100,000. Liquidation expenses amounted to Shs.75,000.

Ng"aki Stores Limited had borrowed a loan of Shs.250,000 from National Bank. The loan was secured against machinery which realized Shs.402,500 upon disposal..

The company due to liquidity problems had not paid salaries of four clerks for four months.

Each clerk was entitled to a salary of Shs.1,500 per month. In addition, salaries of four messengers for three months at the rate of Shs.750 per month was outstanding.
Creditors worth shs.437,000 were in the books.
The shares capital was composed as follows:

10,000 Class A ordinary shares of Shs.100 each (Shs 75 paid-up).
8,000 Class B ordinary shares of shs.100 each (Shs.60 paid-up)
7,000 Class C ordinary shares of Shs.100 each (shs.50 paid-up)
10,000 8% preference shares of Shs100 each (fully paid-up)

Required:

The liquidator"s Statement of receipts and payments with the appropriate support schedules. (14 marks)

(Total: 20 marks)

QUESTION FIVE

a) With reference to the provisions of the law of succession:
   i) Define a will; (2 marks)
   ii) Give two short explanation of failure of legacies. (4 marks)

b) Mr Ruare dies intestate, leaving his two wives Luky and chity whom he married under a system of law which permits polygamy. A third wife Beaty had predeceased him. Luky has three children Peter, Lowe and Ricci. Beaty had two children Short and Tall. Chity has no children.

   All the children are alive at the time of Mr. Ruare"s death. The value of his personal and household effects was Sh.350,000 and the value of the net intestate estate was Sh.3,150,000.

Required:

A clear statement to show how Mr. Ruare"s property would devolve. (9 marks)

(Total: 15 marks)

PAPER 3

QUESTION ONE

Below are the summarized Balance Sheets of Rich Ltd. Its subsidiary Preston Ltd and its associate Guise Ltd at 30th November 2002.

	Rich Ltd	Preston Ltd	Guise Ltd
	£	£	£
Assets			
Freehold Land – cost or valuation	600,000	200,000	400,000
Freehold Buildings NBV)	1,000,000	400,000	640,000
Machinery NBV)	1,200,000	360,000	640,000
	2,800,000	960,000	1,680,000
Inv. in subsidiary (cost)	720,000	-	-
Inv. in associated company (cost)	480,000	-	-
Inventories	1,200,000	440,000	880,000
Accounts Receivable	600,000	200,000	480,000
Amounts owed by Subsidiary	20,000	-	-
Bank and cash balances	100,000	-	160,000
	5,920,000	1,600,000	3,200,000
Equity and liabilities			
Share Capital			
15% cumulative preference £ 20 share)	400,000	-	-
Ordinary £ 20 share)	2,400,000	600,000	800,000
Share Premium Account	320,000	-	200,000
Fixed assets revaluation reserve	-	-	400,000
Retained earnings	400,000	244,000	340,000
	3,520,000	844,000	1,740,000
12% Debenture	1,200,000	400,000	800,000
Deferred taxation	240,000	94,000	160,000
Corporation tax	160,000	48,000	100,000
Accounts payable	560,000	136,000	320,000
Proposed dividend	240,000	30,000	80,000
Bank overdraft	-	40,000	-
Amount due to holding company	-	8,000	-
	5,920,000	1,600,000	3,200,000

You are given the following additional information:

i) Rich Ltd acquired 24,000 ordinary shares in Preston Ltd by issuance of 20,000 of its own ordinary shares at a price of £30 per share. At the time Preston Ltd had reserves totalling £120,000.

ii) Rich Ltd purchased 16,000 ordinary shares in Guise Ltd for cash at a time when the latter had retained earnings totalling £80,000 and no outstanding dividends. Guise Ltd has not issued any shares then, but has subsequently revalued its fixed assets.

iii) £100,000 of Rich Ltd"s inventory had been purchased from Preston Ltd cost to latter £80,000.

iv) Cash remitted by Preston Ltd £12,000 was not received by Rich until December 2002 and had not been recorded in Rich Ltd"s books prior to the year end.

v) Rate of corporation tax 50%.

Required:

a) Prepare a consolidated Balance Sheet in vertical form as at 30th November 2002 and

(Total: 22 marks)

QUESTION TWO

Cat and mouse were in partnership as retail traders sharing profits and losses: cat three-quarters, mouse one-quarter. The partners were credited annually with interest at the rate of 6% per annum on their fixed capitals; no interest was charged on their drawings. Mouse was responsible for the buying department of the business. Cat managed the head office shop and kitten was employed as the branch manager. Cat and Kitten were each entitled to a commission of 10% of the net profits after charging such commission) of the shop managed by him. All goods were purchased by head office and goods sent to the branch were invoiced at cost.

The following was the trial balance as on 31st December 2001.

	Dr	Cr	Dr	Cr
	£	£	£	£
Drawings Accounts and Fixed				
Capital Accounts:				
Cat	2,500	14,000		
Mouse	1,200	4,000		
Furniture and Fittings, at cost	1,500		1,100	
Furniture and Fittings,				
provision for depreciation as		500		350
on 31st December 1999	13,000		4,400	
Stock on 31st December 1999	37,000			
Purchases		18,000	17,200	
Goods sent to branches		39,000		26,000
Sales		600		200
Provision for doubtful debts	6,800			3,600
Branch and Head Office	4,500		3,200	
Current A/cs			240	
Salaries and wages	2,200		960	
Kitten, on account of	2,400			
commission	3,200		1,800	
Carriage and travelling	7,000		3,000	
expenses		5,800		400
Administrative expenses	600			1,350
Trade and general expenses				
Sundry debtors	81,900	81,900	31,900	31,900
Sundry creditors				
Bank balances				

You are given the following additional information:-

1) Stocks on 31st December 2001 amounted to: head office £14,440, branch £6,570.
2) Administrative expenses are to be apportioned between head office and the branch in proportion to sales.
3) Depreciation is to be provided on furniture and fittings at 10% of cost.
4) The provision for doubtful debts is to be increased by £50 in respect of head office debtors and decreased by £20 in the case of those of the branch.
5) On 31st December 2001 cash amounting to £2,400, in transit from the branch to head office, had been recorded in the branch books but not in those of head office, and on that date goods invoiced at £800, in transit from head office to the branch, had been recorded in the head office books but not in the branch books.

You are required to:

a) Prepare Trading and Profit and Loss Accounts and the Appropriation Account for the year ended 31st December, 2001 showing the net profit of the head office and branch respectively.
b) Prepare the Balance Sheet as on that date, and
c) Show the closing entries in the Branch Current Account giving the make-up of the closing balance. **(Total: 20 marks)**

QUESTION THREE

Ted Safari has had a bankruptcy petition filed against him in the High Court. A receiving order was made on 31 October 1995. He has not kept accounts for 10 months to 31 October 1995. His financial position as at 31 December 1993 (the Official Receiver has accepted that the Deficiency Account cover the period from this date) was as follows:-

Business Balance Sheet
As at 31 Decmber 1994

Net Personal Assets
As at 31 December 1994

Fixed assets				
(Net Book Value)	Sh.„000"	Sh. „000"	Assets at cost:	Sh.„000"
Plant and Machinery		4,000		
			House	4,000
Motor vehicles		5,000	Furniture and contents	300
		9,000	Motor car	700
				5,000
Current Assets:				
Stock	3,000		Mortgage on house	3,000
Debtors	7,000		Car loan (secured on car)	500
	10,000			3,500
			Value of net estate	1,500
Current Liabilities				
Bank overdraft	3,000			
(secured on plant)				
Creditors	5,000			
	8,000	2,000		
		11,000		
Capital		7,500		
Finance lease on vehicles		3,500		
		11,000		

You establish the following facts.

Between 1 January 1995 and 31 October 1995, he had made 10 monthly payments of Sh.60, 000 each in respect of his mortgage: mortgage interests for the period was Sh.500, 000. He had made 3 quarterly repayments on his car loan Sh.75, 000 each and on the finance lease on his vehicles of Sh.850, 000 each; interest for the 10 months on the car loan and finance lease were Sh.100,000 and Sh.600,000 respectively. These payments were made out of his business bank account for the 10-month period to 31 October 1995; sales (both for cash and on credit) totalled Sh.30 million. He collected and banked directly Sh.28 million from debtors and sales; he used Sh.1 million collections for drawings. All creditors at 3 December 1994 were in respect of trade purchases. In the 10 months he had paid Sh 22 million to trade creditors and Sh.5million in respect of expenses. He had neither purchased nor sold any fixed assets, either for his business or his personal use. He had obtained a short-term loan from his uncle on 29 October 1995 for Sh.5 million which he had banked in his business bank account on the same day. Overdraft interest for the period had been charged in the amount of Sh.750, 000. On 31 October 1995, stock at cost was Sh.2 million. Liabilities of Sh.6 million for purchases and Sh.1 million for expenses (including Sh.300, 000 to his 25 employees for months of September and October – all earn in excess of Sh.3, 000 per month, and Sh.260, 000 PAYE deductions not yet paid across to the Income Tax Department) need to be accounted for: The realisable value of assets are: Plant Sh.1.8 million, Motor vehicles Sh.2.5 million, Stock Sh.1.6 million, Debtors Sh.5.5 million, House Sh.4.2 million, Furniture and contents Sh.0.1 million, Motor Car Sh.0.4 million. He had drawn Sh.500, 000 from his business bank account in respect of personal expenses.

Required:

Statement of Affairs and a Deficiency Account in accordance with the format contained in the Bankruptcy Act. Show all your workings. **(Total: 20 marks)**

QUESTION FOUR

Kena, Limo and Mara had been orphaned when both their parents died in a bus accident in April 1992. Their uncle, Mr. Barua, a stockbroker on the Nairobi Stock Exchange, organised a harambee for them in June 1992 and raised Sh.1, 980,000. He invested this amount as follows:

	Sh.
9,600 Sh.10 Ordinary Shares in KAB Ltd.	432,000
12,600 Sh.10 Ordinary Shares in BBB Ltd.	756,000
13,200 Sh.10 Ordinary Shares in TEA Ltd.	792,000
	1,980,000

He established an accumulation and maintenance trust to hold these investments on behalf of the children. The trust had a wide investment clause. He ruled that accounts be made up to 31 May each year. When each child reached the age of 21, the trustees were to transfer to him his share of the fund at that date. Kena turned 21 years on 31 May 1996.

The balances on the Accumulation Accounts of Kena, Limo and Mara at 1 June 1995 were Sh.207, 900, Sh.103,950 and Sh.34,650. To this date, the trustees had used accumulated income to purchase 5,775 Sh.10 Ordinary Shares in TEA Ltd. On 1 June 1995, there was no cash in the income account in the bank.

In the year to 31 May 1996, Sh.222, 750 was received from Capital Investment and Sh.62,370 from Accumulation Investments and maintenance payments made on behalf of Kena, Limo and Mara were Sh.77, 000, Sh.81, 000 and Sh.94,000, respectively. On 31 May 1996, the market values of the shares in KAB Ltd., BBB Ltd and TEA Ltd, were Sh.60, Sh.80, and Sh.70 respectively.

Kena was to receive 10,000 Sh.10 Ordinary Shares in BBB Ltd. and the balance due to him on capital would be made up of shares in KAB Ltd. Out of the accumulation assets, Kena was to receive Sh.32, 222 in cash and the balance in shares in TEA Ltd.

Required:

The beneficiaries" accumulation accounts for the year ended 31 May 1996 anddistribution statements for the capital and accumulation assets as at 31 May 1996.

(Total: 18 marks)

QUESTION FIVE

The following is the trial balance of Civil Servants Pension Fund as at 31 October 2001:

	Sh. „000"	Sh. „000"
Accumulated Fund at 1 November 2000		3,245.00
Land and buildings in the Central Business District (unexpired lease term = 99 years)	2,000.00	
Pensions	390.00	
Income from fixed return securities		580.00
11% Treasury stock	400.00	
Freehold property in Kitengela (developed with rental incomeHousing units)	2,200.00	
Employers normal contributions		980.00
Administration expenses	150.00	
Claims received on term insurance policies		21.00
Premiums paid on term insurance policies	49.00	
Term insurance policies	400.00	
Employers additional contributions		25.00
Employers normal contributions	300.00	
Unpaid benefits		30.00
Group transfers in from other schemes		75.00
Individual transfers out to other schemes	5.00	
Debtors on investment transactions	16.00	
Commutation of pensions and lump sum retirement	14.00	
Income from unit trusts		70.00
Rental income from property	45.00	
Group transfers out to other schemes	40.00	
Cash and demand deposits	35.00	
Tax paid on fund income	460.00	
Ksh.250, 000 loan stock in KVM	200.00	
Death benefits paid	15.00	
Creditors for investment transactions	22.00	
Refund of contributions	28.00	
Investment in unit trusts	350.00	
Loan from HFCK to develop property in Kitengela		1,000.00
Contributions due within 30 days	56.00	
Shares in Moyalematt 2.00		
	7,009.00	7,009.00

Notes:

1. The fund owned 12,000 shares in Moyalematt, which were initially purchased for Shs.14, 000. These have been disposed of during the year. The only entries made in the books were in a debtor account and investment account since the shares are yet to be paid for.

2. The trustees felt the need to reflect the following market prices in the financial statements:
   Loan stock in KVM – Market price index – 84.00
   Shares in Flamingo Airways -Sh.9.75 per share.

Required:

i) Statement of change in net assets for the year to 31 October 2001. (10 marks)
ii) Statement of net assets as at 31 October 2001. (10 marks)
(Total: 20marks)

PAPER 4

QUESTION ONE

PREPARATION OF PUBLISHED FINANCIAL STATEMENTS

The accountant of Wislon Co. has prepared the following list of account balances as at 31 December 20X7

	Sh „000"
50c ordinary shares (fully paid)	350
7% Sh.1 preferred shares (full paid)	100
10% debentures (secured)	200
Retained earnings 1.1 x 7	242
General reserve 1.1 x 7	171
Land and buildings 1.1 x 7 (cost)	430
Plant and machinery 1.1 x 7 (cost)	830
Aggregate depreciation	
Building 1.1 x 7	20
Plant and machinery 1.1 x 7	222
Inventory 1.1 x 7	190
Sales	2,695
Purchases	2,152
Preferred dividend	7
Ordinary dividend (interim)	8
Debenture interest	10
Wages and salaries	254
Light and heat	31
Sundry expenses	113
Suspense account	135
Trade accounts receivable	179
Trade accounts payable	195
cash	126

Notes

(a) Sundry expenses include Shs. 9 million paid in respect of insurance for the year ending 1 September 20X8. Light and heat does not include an invoice of Shs. 3,000 for electricity for the three months ending 2 January 20X8, which was paid in February 20X8. Light and heat also includes Shs. 20 million relating to salesmen"s commission.

(b) The suspense account is in respect of the following items.

	Shs. million
Proceeds from the issue of 100,000 ordinary shares	120
Proceeds from the sale of plant	300
	420
Less consideration for the acquisition of Mary & Co.	285
	135

(c) The net assets of Mary & Co. were purchased on 3 March 20X7. Assets were valued as follows.

	Shs. Million
Investments	231
Inventory	34
	265

All the inventory acquired was sold during 20X7. The investments were still held by Wislon at 31.12.X7. Wislon amortises goodwill over 5 years, with a full charge made in the year of acquisition.

(d) The property was acquired some years ago. The buildings element of the cost was estimated at Shs.100,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 December 20X7 the property is to be revalued at Shs.800 million.

(e) The plant which was sold had cost Shs350,000 and has a net book value of Shs. 274,000 on 1.1 x 7. Shs.36,000 depreciation is to be charged on plant and machinery for 20X7.

(f) The debentures have been in issue for some years. The 50p ordinary shares all rank for dividends at the end of the year.

(g) The Management to provide for:

i) Debenture interest due
ii) A final dividend of 2c per share
iii) A transfer of general reserve of Shs. 16,000
iv) Audit fees of Kshs.4,000.

(h) Inventory as at 31 December 20X7 was valued at Shs.220,000 (cost).

(i) Taxation is to be provided as at Shs.30,000. Assume tax rate of 30%.

Required

Prepare the financial statements of Wislon Co. as at 31 December 20X7 to produce notes to the statements.

QUESTION TWO

X, Y, Z and M are in partnership sharing profits in the ratio 3:2:1:4 respectively. It is decided to dissolve this small size partnership on 1 January 1994 on which date the balance sheet was as below:

	Sh.	Sh.
Non Current Assets:		
Land and buildings		42,500
Plant and machinery		39,605
Goodwill		15,000
Investments		19,000
		107,105
Current Assets:		
Stock	31,740	
Debtors	19,205	
Cash at bank	1,565	
	52,510	
Less creditors	34.615	17 895
		125,000
Capital Accounts:		
X		35,000

Y	20,000
Z	15,000
M	20,000
Leasehold redemption fund	10,000
General reserve	25,000
	125,000

The assets are realized piecemeal as below:

		Sh.
January 11	Stock (Part)	17,500
15	Debtors (Part)	14,660
29	Investments	12,100
February 4	Goodwill	10,000
22	Land and buildings	35,000
22	Debtors (Part)	2,500
22	Stock (balance)	13,750
March 16	Plant and machinery	32,800
16	Debtors (balance)	1,755

Subject to providing Sh.2,500 to meet the probable expenses of realization, the partners decide that after the creditors have been paid, all cash received shall be divided between them immediately.
The expenses of realization, which are paid on 16 March amounts to Sh.2, 000.

Required:

(a) Prepare a statement showing how the distributions should be made. (10 marks)
(b) Prepare a realization Profit an Loss Account, Cash Account and the Partners Capital Accounts. (10 marks)

(Total 20 marks)

QUESTION THREE

Kamau commenced business on 1 April 1993 in a shop that he acquired in Thika on a 8 year lease. He also rented premises with fixtures and furniture"s in Malindi that is managed by a branch manager. He acquired plastic toys and packaged them to customers order. The packaging was a feature of his marketing and so he spent 10% of the cost price of the toys on packaging and sold them at a profit of 12% on selling price. Packaged toys were sent to Malindi at selling price less 6%.

The following trial balance was extracted on 31 March 1994:

	Head office		Branch	
	£	£.	£.	£.
Capital		50,000		
Fixtures	8,000			
Purchase of toys	200,000			
Purchase of packaging material	22,000			
Sales		140,000		75,000
Goods sent to branch		79,900	78,452	
General expenses	20,000		2,000	
Debtors	14,000		7,500	
Creditors		20,000		2,000
Head office current				14,052
Branch current	18,000			
Bank balances	7,900		3,100	
	28,900	28,900	91,052	91,052

The following information is also available:

1. Packaged goods dispatched by head office to Malindi on 29 March 1994 were not received in Malindi until 5 April 1994. The selling price of the goods to the public was £.1,540.
2. Malindi had sent £.2,500 to head office on 30 March 1994. The cash was not received until 5 April 1994.
3. The annual stock taking on 31 March 1991 revealed:
   - Toys which were bought by head office at £.500 were considered obsolete.
   - Packaging material worth £.250 at Head office was spoilt.
   - The head office dispatched stocks to branch at an invoice price of £.650. The stock was stolen at the branch.
4. Provision is made for a commission to the Malindi Manager at 10% of net profit after commission.
5. Provision is made for depreciation of fixtures over the term of lease.

Required:

Prepare an operating statement for the year ended 31 March 1994 for head office, the branch and the whole business and the balance sheet for the head office, branch and the whole business as at 31 March 1994. **(Total: 20 marks)**

QUESTION FOUR

Bigcom Investments Ltd has prepared the following draft group accounts for the year ended 30 September 19 6.

	Shs. „000"	Shs. „000"	Shs. „000"
Profit and Loss Account			
Operating profit before taxation			16,866
Taxation			(8,334)
			8,532
Less: Minority shareholders" interest			(684)
			7,848
Add: Share of results of associates			
Profit before taxation	954		
Less: Taxation	(504)		450
			8,298
Extraordinary items:	Holding company	Share of Associates	
	Shs. „000"	Shs. „000"	
Before taxation	510	498	
Less: taxation	150	138	
	360	360	720
Group profit for the year			9,018
Less: Dividends		(2,100)	
Transfer to general reserve		(1,860)	
			(3,960)
			5,058

Retained in the accounts of:	Shs. „000"
Bigcom Investment Ltd	3,024
Subsidiaries	1,440
Associates	594
	5,058

Balance Sheet at 30 September

	19 6	19 5
	Shs. „000"	Shs. „000"
Leasehold premises net)	19,800	17,100
Plant, machinery and equipment net)	15,120	11,340
Goodwill on consolidation	5,040	5,040
Associated companies – at cost	5,760	5,760
Attributable profits	1,458	864
Stock	8,640	5,958
Debtors	7,758	5,976
Bank	-	1,728
	63,576	53,766
Share capital Shs.5 per ordinary share)	6,840	5,400
Share premium	6,336	5,400
General reserve	5,460	3,600
Retained earnings	23,166	18,108
Minority interest	3,738	3,474
Taxation	7,296	8,028
Debentures (10%)	3,720	5,400
Provision for deferred repairs	2,106	1,548
Creditors	3,078	2,106
Overdraft	666	-
Proposed dividends – Bigcom Investment Ltd	936	576
- Minority	234	126
	63,576	53,766

The following data is relevant:

The 10% debentures were redeemed at a premium of 10% which was written off against the share premium account.
Plant and Equipment with a written down value of Shs.828,000 was sold for Shs.504,000. New plant was purchased for Shs.7,500,000.
Leasehold premises costing Shs.3,900,000 were acquired during the year.

Required:

Prepare the consolidated cash flow statement for the year ended 30 September 19X6

(Total: 20 marks)

QUESTION FIVE

a) Tantu died on 31 October 1992 and was survived only by Mwanda his grandson, the son of his son Maga.

By his will, which barred equitable apportionment and was silent on the date of payment of legacies, he left his estate as follows:

to my cousin Mwamba my beach plot; to my friend Nyambaya my car;
to my nephew Pamba my boat; to each of my two sons £10,000; to my brother-in-law £2,000;
to my housekeeper Awa if still in my employment £20,000; to the pastor of my church, Charles £5,000;
to my local church £5,000 to buy a piano in memory of my deceased mother; to my shamba-boy, Akida, if still in my employment £2,000;
to each of my neighbours Nyawawa, Weru and Langat £1,000;
to the water games club, my outboard engine and to my grandson Mwanda the residue absolutely.

On 30 April 1993, the Executors, having paid all the liabilities of the estate and the expenses of administration, were ready to assent to the legacies. The property in their possession and its value at that date was:

	£
Car, Fiat	9,000
Car, Toyota	5,000
Boat	2,500
Furniture, Jewellery etc.	9,500
Farm	4,000
Beach plot	1,200
£150,000 6%Government stock	120,000
Balance at bank	68,800

You further obtain the following additional information:

i) Pamba died on 30 March 1992.
ii) Tantu had two brothers-in-law surviving at 31 October 1992.
iii) Awa was still employed at 31 October 1992.
iv) During his lifetime, Tantu had provided his local church with a piano in memory of his late mother.

v) Akida retired on 31 October 1990.
vi) Nyawawa and Langat both predeceased Tantu.
vii) The farm had been purchased by Tantu with proceeds of the sale of the outboard engine.

Required:

Prepare a schedule showing the distribution of the estate and give your reasons should you decide that the executors should not assent to any of the legacies. Ignore taxation.
(14 marks)

b)
i) What is the rule of lapse? (3 marks)
ii) Explain what is meant by abatement. (3 marks)
(Total: 20 marks)

PAPER 5

QUESTION ONE

The draft Balance Sheets of UNA Limited, KMN Limited and LLE Limited are as follows: UNA Limited and KMN Limited are both listed on the Nairobi Stock Exchange:

Balance sheets as at 30 September 1996	**UNA Ltd**	**KMN Ltd**	**LLE Ltd**
	Sh. million	**Sh. million**	**Sh. million**
PPE (Net book value)	684	430	330
Investments:			
At cost:: Shares in KMN Ltd	600		
At Valuation: Shares in LLE Ltd		360	
Current assets			
Inventory	484	320	270
Receivables	180	150	90
Cash at bank	0	80	40
	664	550	400
Current liabilities			
Bank overdraft	60		
Payables	170	120	90
Current Tax	60	50	40
Proposed dividends	100	100	50
	390	270	180
Net current assets	274	280	220
	1,558	1,070	550
Financed by:			
Sh.10 Ordinary shares	500	500	250
10% Preference shares	0	80	0
Revaluation reserve	0	30	0
Profit and loss account	1058	460	300
	1,558	1,070	550,

Notes

1. UNA Ltd. purchased 60 % of the ordinary share capital and 30 % of the preference share capital of KMN Ltd. on 1 October 1992, when the balances on the Profit and Loss Accounts of UNA Ltd., KMN Ltd. and LLE Ltd. were Sh.899 million, Sh.360 million and Sh. 150 million respectively.
2. KMN Ltd. had purchased 70% of the ordinary share capital of LLE Ltd. on 1 October 1991 for Sh.330 million when the balance on the Profit and Loss Accounts of UNA Ltd., KMN Ltd. and LLE Ltd. were Sh.856 million, Sh.330 million and Sh. 130 million respectively. The investment was revalued upwards by Sh.30 million on 30 September 1995. The directors of KMN Ltd. had decided to revalue the investment at Sh.378 million at 30 September 1996, but this has not yet been reflected in the books.
3. KMN Ltd. makes sales to both UNA Ltd. and LLE Ltd. at normal selling price (cost plus a mark-up of 33¹/₃%). At 30 September 1996, items purchased by UNA Ltd. and LLE Ltd. from KMN Ltd. remaining unsold had cost Sh.24 million and Sh. 16 million respectively. Group policy on unrealised intra-group profits is in

line with current international practice i.e. unrealised profits are eliminated in full from the book value of assets, and from the interests held by the group and the minority interest in respective proportion to their holdings in the company which had made the profit.

4, UNA Ltd. and KMN Ltd. have not yet accounted for the dividends receivable.

5. Intra-group balances are included in Receivables and payables as follows:

UNA Ltd.:	payables	LLE Ltd.	Sh. 18 million
	Receivables	KMN Ltd	Sh.8 million
KMN Ltd.:	Payables	LLE Ltd.	Sh.6 million
LLE Ltd.:	Receivables	UNA Ltd.	Sh.18 million
.		KMN Ltd	Sh.6 million

6. KMN Ltd. had made out a cheque for Sh.10.4 million on 30 September 1996; this cheque was received by UNA Ltd. on 30 October 1996 and had not been included in UNA Ltd.'s balance sheet. This Sh.10.4 million includes the preference dividend due to UNA Limited.

7. Goodwill on consolidation is assumed to be impaired at the rate of 20%.

Required:

Consolidated Balance Sheet of UNA Ltd. and its subsidiaries as at 30 September 1996 complying, so far as the information will allow, with the accounting requirements of the Companies Act and International financial reporting standards. **(Total: 25 marks)**

QUESTION TWO

Kwale, Ndiu and Riuki were in partnership sharing profits in the ratio 3:3:2 after charging interest on capital at 5 per cent per annum.

The following information was relevant to their business as at 1 September 1996:

Balance sheet as at 1 September 1996

Capital accounts:	Sh.	Sh.
Kwale	120,000	
Ndiu	120,000	
Riuki	60,000	300,000
Current accounts: Kwale	600	
Ndiu	300	
Riuki	300	1,200
8% loan to partnership by Ndiu	15,000	
Life assurance fund		78,000
		394,200

Represented by:	**Sh.**
Life assurance policies	78,000
Net assets	316,200
	394,200

The following additional information is provided:

1. The life assurance contract is represented by the life policies on the lives of the three partners plus profits. The total premium is Sh.9,000 paid annually in November.
2. The policies account and the fund account are adjusted annually to surrender value.
3. Ndiu died in August 1997 and the sum payable on his life was Sh.108,000. The surrender value was Sh.45,000.
4. All proceeds from life policies are to be shared in profit sharing ratios.
5. Profit for the year was Sh.111,600.
6. At the close of business the bank balance was Sh.110,400 including the amount received from the insurance company.
7. All the remaining assets were sold and the net proceeds after settling liabilities was Sh.372,000. Legal fees paid was Sh.960.
8. Partners drawings were:

	Sh.
Kwale	37,800
Ndiu	40,500
Riuki	23,700

9. The life assurance contract was reassigned and new policies issued to Kwale and Riuki for Sh.27,000 and Sh.18,000 respectively.
10. The partnership winding up process was completed by 30 August 1997.

Required:

The following ledger accounts necessary for all the closing entries including final payments to the partners:

(a) Capital accounts: (5 marks)
(b) Current accounts (4 marks)
(c) Loan account; (1 mark)
(d) Life assurance fund account; (1 mark)
(e) Cash book; (3 marks)
(f) Life assurance policy account: (2 marks)
(g) Net assets account. (4 marks)

(Total: 20 marks)

QUESTION THREE

Antiquarius Ltd is a company which deals in antiques. The Company is based in London and operates in the UK, but also has a profitable outlet in San Francisco, California, which is managed by one of the directors on his frequent trips to the States. Separate records are kept of the outlet"s transactions b the American staff.

The following trial balances were extracted from the books of Antiquarius Ltd at 31 December 2003

	London		San Francisco	
	£	£	$	$
Share capital		20,000		
Retained Profits as at1 January 2003		20,200		
Lease hold premises	15,000		40,000	
Amortization of lease		7,000		8,000
Delivery vans, at cost	12,000		10,000	
Provision for dep"n on delivery vans		6,000		5,000
Opening inventory, at cost	8,620		12,460	
Accounts receivable	3,869		6,293	
San Francisco current account	22,600			
London current account				44,400
Sales		78,318		116,308
Transfers to San Francisco		21,600		
Purchases	70,066		21,800	
Transfers form London			38,620	
Administration expenses	2,386		3142	
Salaries and wages	17,420		23,500	
Selling and delivery costs	5,485		8,940	
Provision for unrealized profit		500		
Cash at bank	6,923		13,879	
Accounts payable		10,751		4,926
	164,369	164,369	178,634	178,634

You are given the following additional information:

(a) Transfers of goods from London to San Francisco are made at cost plus 20%.

(b) The average rate of exchange during the year was $1.80 to the £. The rates of exchange at 1 January 2003 and 31 December 2003 were $2.00 and $1.60 to the £ respectively.

(c) Inventory of antiques on hand at 31 December 2003 were:

London	£ 12,470
San Francisco (including $9,180 of goods sent from London when the rate of exchange was $1.70)	$15,240

(d) Salaries and wages for London include director"s emoluments of £8,000 of which £3,200 is to be charged to the US outlet at the rate of exchange of $1.60 to the £1.

(e) Administration expenses accrued but not yet taken into account amount to:

London	£800
San Francisco	$760

(f) When the leasehold premises and delivery vans were acquired in San Francisco the rate of exchange was $2.20 to the £.

(g) Depreciation is to be provided for the year on the vans at 25% of cost, and the leases are to be amortized by equal amounts written off over the periods of the leases, which are:

London	15 years

San Francisco 10 years

(h) On 31 December 2003 London office had shipped a regency bureau to San Francisco at a value of £900. Although they recorded as a transfer in the London books no entry was made in the books in San Francisco until it was received on 20 January 2004.

You are required to prepare for the year ended 31 December 2003

(a) The trial balance of the San Francisco outlet, converted at „historic rate", after making the year end adjustments, and indicating clearly the rates of the conversion used. (3 marks)

(b) The trading and profit and loss account of London, San Francisco and the combined business in columnar form. (10 marks)

(c) The balance sheet of the combined business (7 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The following is the summarised Balance Sheet of Bahati Mbaya Ltd. as at 30 September 1992.

	Sh.		Sh.
Issued Share Capital		Sundry Assets	3,532,000
8,000 12% Preference		Buildings	800,000
Shares of Sh.100 fully		Preliminary expenses	80,000
Paid	800,000		
12,000 Ordinary shares		Profit and Loss	
of Sh.100 each, Sh.95 paid	1,140,000	Account	568,000
11% Debentures	1,600,000		
Loan on Mortgage	640,000		
Bank Account	200,000		
Creditors (including Sh.160,000 for tax)	600,000		
	4,980,000		4,980,000

The mortgage was secured on the buildings and the debentures were secured by a floating charge on the "Sundry Assets". Due to the inability of Bahati Mbaya Ltd. to service itsdebenture obligations, the debenture holders appointed a receiver who took charge of some of the "Sundry Assets" amounting to Sh.2,520,000. A liquidator was also appointed as the company went into a voluntary liquidation.

The receiver realised the assets for Sh.2,520,000. A liquidator was also appointed as the company went into a voluntary liquidation.

The receiver realised the assets for Sh.2,360,000 and expenses and remuneration were Sh.12,000 and Sh.16,000. Buildings were sold for Sh.720,000 and Sh.1,160,000 was received from the sale of the remaining sundry assets. The bank had the guarantee of Bahati Mbaya Ltd. directors (personal) amounting to Sh.176,000 which was duly honoured by them. The costs of the liquidation were Sh.24,000 and the Liquidators remuneration amounted to Shs. 10,000. All transactions were completed by 31 December 1992.

Required:

i) Receivers Receipts and Payments Account. (5 marks)
ii) Liquidator"s Fund Statement of Account (11 marks)

b) State the circumstances in which a company may be voluntarily liquidated in Kenya. (4 marks)

(Total: 20 marks)

QUESTION FIVE

a) State two main ways of constituting a trust.
Give appropriate examples (4 marks)

b)

i) Five years ago Otieno bought a house in the name of his friend Odhiambo in order to conceal the ownership of the house. Odhiambo is now claiming the house as his own.

Required:

What is the position on ownership of the house? Would the position be the same if Odhiambo was Otieno"s son? (4 marks)

ii) An aircraft went out of control and crashed on Kimani"s villa in Tena estate. Kimani and his members of the family perished in the accident.. The Utopian ambassador being a kind man immediately raised a fund for the benefit of the dependants of Kimani"s family.

It now appears that there are no dependants and the ambassador wishes to know how he should distribute the money he had raised for late Kimani"s dependants. Explain to the ambassador the alternatives opened to him. (7 marks)

(Total: 15 marks)

ANSWERS - MOCKS

PAPER ONE

Loita and its subsidiary
Consolidated profit and loss account for the year ended 30 September 1999

	Loita Sh."000"	Leserni Sh."000"	Group Sh."000"
Turnover	642,500	372,000	853,500
Cost of sales			
Opening stock	51,250	28,240	
Purchases	320,650	187,500	
	371,900	215,740	
Less closing stock	51,300	29,740	
	(320,600)	(186,000)	(392,100)
Gross profit	321,900	186,000	461,400
Investment income: dividends	18,000		
Distribution costs	(112,350)	(64,600)	(160,800)
Administration costs	(94,550)	(36,400)	(121,850)
Finance cost: Debenture interest	(10,000)		(10,000)
Goodwill amortised	-	-	(1,500)
Profit before tax	123,500	85,000	167,250
Income tax expense	(31,000)	(25,000)	(49,750)
Profit after tax	92,000	60,000	117,500
Profit attributable to Minority Int.	-	-	(18,000)
	92,000	60,000	99,500
Dividends: Interim paid	(20,000)	(20,000)	(20,000)
Final proposed	(40,000)	(20,000)	(40,000)
Retained profit: Year	32,000	20,000	39,500
B/f	64,950	31,800	64,950
C/f	96,950	51,800	104,450

Loita and its subsidiary
Consolidated balance sheet as at 30 September 1999

	Loita Sh."000"	Leserin Sh.„000"	Group Sh.„000"
NON CURRENT ASSETS			
Property, plant and equipment	141,920	62,800	204,720
Intangibles: Goodwill	-	-	8,500
Investments	56080	-	-
	198,000	62,800	213,220
CURRENT ASSETS			
Inventories	51,300	29,740	81,040
Receivables	53,520	31,260	75,780
Dividend receivable	12,000	-	-
Cash at bank	6,830	8,200	15,030
Cash in transit	-		3,000
Total Current Assets	123,650	69,200	174,850
Total Assets	321650	132000	388070
Financed by			
Ordinary share capital	100,000	40,000	100,000
Retained profit	96,950	51,800	104,450
	196,950	91,800	204,450
Minority Interest	-	-	36,720
Shareholders funds	196,950	91,800	241,170
Non Current Liabilities			
20% Debenture stock	50,000	-	50,000
	246,950	91,800	291,170
CURRENT LIABILITIES			
Payables	31,800	18,100	43900
Tax payable	2,900	2,100	5000
Proposed dividends	40,000	20,000	20,000
Dividend to Minority interest	-	-	8,000
	74,700	40,200	96,900
TOTAL EQUITY AND LIABILITIES	321650	132000	388070

Workings

1. **Dividends**

	Sh."000"
Holding: Interim (paid)	20,000
Final (proposed) (40% x 100,000)	40,000
Subsidiary: Interim (paid)	60,000
Final proposed (50% x 40,000)	20,000
Preacquisition (3/12 x 60% x 40,000)	20,000
Post-acquisition (9/12 x 60 x 40,000)	40,000
	6,000 To Cost of control
	18,000 to Profit & Loss
	8,441

2. **Cost of Control**

	Sh."000"			Sh."000"
Investment in subsidiary	62,080	Pre-acquisition dividend		6,000
		Ordinary share capital		24,000
		Profit & Loss		22,080
		Goodwill written off	1,500	
	-	C/d	8,500	10,000
	62,080			62,080

3. **Profit and Loss Working**

	Sh."000"		Sh."000"
Goodwill written off	1,500	Loita	96,950
Bal c/	104,450	Leserni	9,000
	105,590		105,590

4. **Minority Interest**

	Sh."000"		Sh."000"
		Ordinary share capital	16,000
Bal c/d	36,720	Profit and loss	20,720
	36,720		36,720

The post-acquisition reserves in Leserni is calculated as (20,000 x 9/12 x 60%)

5. **Reserves (Subsidiary)**

	Sh."000"
Reserves b/f	31,800
Pre-acquisition reserves for year (3/12 x 20,000)	5,000
	36,800
Total pre-acquisition reserves	22,080
Group share (60%) to COC	

6.

		Sales Sh."000"	Cost of sales Sh."000"	
Loita		642,500	320,600	
Leserni	(372,000 x 9/12)	279,000	139,500	(186,000 x 9/12)
		921,500	460,100	

	Loita Sh."000"	Leserni (9 months) Sh."000"	Total Sh."000"
Distribution costs	112,350	48,450	160,800
Administrative expenses	94,550	27,300	121,850
Tax	31,000	18,750	49,750

PROPERTY, PLANT AND EQUIPMENT

	LOTA	LESERIN	GROUP
Land and Buildings	60200	38100	98300
Motor vehicles	11270	4400	15670
Plant and Machinery	70450	20300	90750
TOTAL (NBV)	141920	62800	204720

Note 2

WORKINGS FOR INVESTMENTS

	Shs
Investment	62,080
Less: Pre acquisition dividend	6,000
	56080

QUESTION TWO

Kimeu and Maingi
Trading profit and loss account for the year ended 31 March 1992

	Sh."000"	Sh."000"
Raw materials		100,700
Opening inventory		716,250
Purchases		816,950
		(71,500)
Less closing inventory		737,450
Raw materials consumed		382,500
Factory wages (375,500 + 7,000)		1,119,950
PRIME COST		
Factory overhead		
Depreciation: Plant (843,750 x 10%)	84,375	
Factory expenses (301,750 + 52,250)	354,000	458,375
Total factory cost of production		1,558,325
Add: Opening stock WIP		85,000
Less: Closing stock WIP		(126,250)
Factory cost of finished goods		1,517,075
Factory profit		192,925
Transfer price of finished goods		1,710,000
Sales		2,775,500
Less cost of sales		
Opening stock: finished goods	1,200,000	
Transfer price: Finished goods	1,710,000	
	2,910,000	
Less closing stock: finished goods	(1,012,500)	(1,897,500)
Gross profit		878,000
Factory profit		192,925
		1,070,925
Expenses		
Depreciation: delivery van (20% x	80,250	
401,250)	150,750	
Wages	277,500	
Expenses (250,500 +27,000)	5,000	
Increase in provision for doubtful debts	112,500	626,000
UPCS on finished goods		444,925
Net profit	255,140	
Shared: Kimeu	189,785	444,925
Maingi		
		-

WORKINGS

1. Closing stock of finished goods

		Units
Opening stock		30,000
Manufactured		38,000
Available for sale		68,000
Sales		(45,500)
Closing stock		22,500
	@ Sh.45	1,012,500

2.

UPCS: $\frac{1,517,075}{38,000} = 39.92 = 40$

(45 – 40) 22,500 = 112,500

3. Share of profit

		Factory Profit		Sales Profit	Total
Kimeu	80%	154,340	40%	100,800	255,140
Maingi	20%	38,585	60%	151,200	189,785
		192,925		252,000	444,925

4. Accruals

	Factory	Sales	Total
Expenses	52,250	27,000	79,250
Factory	7,000	-	7,000
			86,250

Kimeu and Maingi
Balance sheet as at 31 March 1992

Non-Current Assets	Sh.	Sh.	Sh.
Freehold factory	1,053,750	-	1,053,750
Factory plant	843,750	235,625	608,125
Delivery van	401,250	172,500	228,750
	2,298,750	408,125	1,896,625
Current Assets			
Stock: Raw materials		79,500	
WIP		126,250	
Finished goods	1,012,500		
Less UPCS	(112,500)	900,000	
Debtors	450,000		
Less provision for bad debts	(45,000)	405,000	
			1,510,750
EQUITY AND LIABILITIES			**3407375**
Financed by:			
Capital Accounts:			
Kimeu	86,250		1,505,140
Maingi	150,000		1,489,785
	176,200		2,994,925
Current liabilities		86,250	
Accruals		150,000	
Creditors		176,200	
Bank overdraft			412,450
TOTAL EQUITY AND LIABILITIES			**3407925**

CAPITAL A/C

	Kimeu Sh."000"	Maingi Sh."000"		Kimeu Sh."000"	Maingi Sh."000"
Drawings	150,000	125,000	Bal b/d	1,400,000	1,425,000
Bal c/d	1,505,140	1,489,785	Profit share	255,140	189,785
	1,655,140	1,614,785		1,655,140	1,614,785

QUESTION THREE

Car Mart Kenya) Ltd

1. Head Office Journal **Branch Journal**

	Dr. Shs.	Cr. Shs.		DR Shs.	CR Shs.
Nakuru Br F.A a/c	2,500,000		H.O current a/c	2,500,000	
Nakuru Br Depreciation a/c		250,000			
Nakuru Br. Current a/c	2,250,000				

Being the recording of fixed assets purchased
by the branch that must
be carried as head office property

	DR	CR
2. Nakuru Br. Current a/c	180,000	
Nakuru br. Debtors Control		180,000
H.O debtors control a/c		180,000

H.O current a/c
Being recording of cash collection from a Head
Office debtor by Nakuru branch

3. No entries

	DR	CR
4. Nanyuki br current a/c	328,000	
Nakuru Br.Currrent a/c		328,000
Bungoma br. Current a/c	212,000	
Nakuru br. Current a/c		212,000

Being correction of mispostings made to other
Branches while awaiting a cheque to be traced in order
To eliminate cash-in-transit.

	Dr. Shs	Cr Shs
5. Goods in transit	800,000	
Nakuru Br. Current a/c		800,000
Being recording of goods in transit to the Nakuru Branch from Head office		

	Dr. Shs	Cr. Shs
6. Goods sent to branches	606000	
Nakuru Branch Current a/c		606,000
Being correction of overstated invoices on goods Sent to Nakuru branch		
7. Goods sent to branches	240,000	
Nakuru branch c/a		240.000
Being recording of goods returned to Head Office By Nakuru Branch		

Correction of Nakuru branch profit:	**Shs.**
Loss for Nakuru branch as per draft a/cs	(1,680,000)
Opening stock overstated by Sh25m	2,500,000
Goods from H.O overstated by 606000	606,000
Revised Nakuru br. Profit for the year to 30.11.94	1,426,000

BranchJournal

1.	Dr. Shs.	Cr. Shs.
H.O Current a/c	2, 500,000	
Br. Trading a/c		2, 500, 000

Being correction of the impact of showing Purchased fixed assets as part of the opening Stock instead of head office property.

2.	Dr Shs	Cr Shs
Nakuru Br. Debtors control	180,000	
H.O Current a/c		180,000

Being correction of receipts from H.Odebtors receipts from h.o debtors being repoted as receipts from branch debtors debtors being reported as receipts from Branch debtors.

3. Prepaid insuarance	120,000	
H.O Current a/c		120,000

Being recording of 6 months prepaid insuarance by H.O on behalf of branch

4. NO ENTRIES

5. NO ENTRIES

6. H.O current Account	660,0000	
Branch trading		660,000

Being correction overstated invoices on
Goods received from Head Office

7. NO ENTRIES

QUESTION FOUR

Akili and Bidii

Statement of affairs as at 31 October 1996

	Joint Estate	Akili	Bidii		Joint Estate	Akili	Bidii
	Sh „000"	Sh. „000"	Sh. „000".		Sh000 0	Shs 000	Shs000
Unsecured creditors	23,620	260	180	Cash	200	100	300
Creditors fully secured	10,000	2,500	3,000	Stock	9,700	-	-
Less value of security	13,50	4,80	5,000	Investments	-	-	800
Surplus below/to contra	3,500	2,300	2,000	Plant & equip	8,500	-	-
Creditors partly secured	8,360	8,960	1,000	Furniture and Household	-		
Less value of security	3,500	3,650	500	Debtors	4,750		
Deficiency ranking as Unsecured	4,860	5,310	500	Surplus from fully secured creditor Per contra	-	2,300	2,000
					23,150	2,600	3,520
Pref. Creditors deducted Per contra	700	-	-	Surplus from B"s Estate	2,840	-	-
					25,990	2,600	3,520
				Less pref. creditors Per contra	(700)	(-)	(-)
					25,290	2,600	3,520
Surplus as per surplus a/c		-	2,840	Deficiency per deficiency a/c	3,190	2,970	-
	28,480	5,570	3,520		28,480	5,570	3,520

Deficiency a/c

	Joint Estate Sh. „000"	Akili Sh.„000"	Bidii Sh.„000"		Joint Estate Sh.„000"	Akili Sh.„000"	Bidii Sh.„000"
Excess of assets over liabilities	10,000	7,240	9,970	Loss on o/d guarantee		8,360	
Estimated surplus on				Loss of P.ship capital			
Realisation of assets:				Est. loss on realisation of assets:		4,000	6,000
				• Motor car			
				• Investment	-	600	1,000
Land and buildings	1,750	1,800	500	• Debtors	-	-	200
				• Stock		-	-
Investments	-	1,350	-	• Plant		-	-
				• Furniture		-	-
Surplus from B"s estate	2,840			Surplus as per SOA		-	-
					-	400	430
					-	-	2,840
Deficiency as per SOA	3,190	2,970	-				
	17,780	13,360	10,470		17,780	13,360	10,470

Workings for unsecured creditors:

	Sh. „000" Joint Estate	Sh. „000" Akili	Sh „000" Bidii
Trade creditors	24,320	260	180
Less pref. Creditors	(700)	(-)	(-)
Unsecured creditors	23,620	260	180

Workings for fully secured creditors

	Sh. „000" Liability	Sh. „000" Security	Sh. „000" Surplus
Joint Estate: Loans (L &B)	10,000	13,500	3,500
Akili: Loans (L &B)	2,500	4,800	2,300
Bidii: Loans (L & B)	3,000	5,000	2,000

Workings for partly secured creditors

	Sh."000"	Sh."000"	Sh."000"
Joint Estate: Bank o/d	8,360	3,500	4,860
Akili: Bank o/d	8,360	3,350	5,010
: Car Loan	600	300	300
	8,960	3,650	5,310
Bidii: Car Loan	1,000	500	500

QUESTION FIVE

NB: The fact that the trust had a wide investment clause means there is no need to divide the fund into "fixed interest", "wider range" or "special range" sections.

June 1992: 1 June 1995 31 May 1996

Fund is established

Accumulation investments
Made = 5775 Shares
in TEA

Accumulation a/cs balance K turned
= K 207900 21 years
= L 103950
= M 34650

Distribution Statement: Capital Assets

Total		Distribution To K		To remain in Trust	
Nominal/No	Value Shs.	Nominal/No	Value Shs.	Nominal/No	Value Shs.
Ordinary Shares in KAB 9,600	576,000	600	36,000	9,000	540,000
Ordinary shares in BBB12,600	1,008,000	10,000	800,000	2,600	208,000
Shares in TEA 1 3,200	924,000	-	-	13,200	924,000
	2,508,000		836,000		1,672,000

Distribution Statement: Accumulation assets

Distribution Statement: Accumulation assets

Total			To remain in trust			
	Nominal/No.	Value Shs	Nominal/No	Value Shs	Nominal/No.	Value Shs
Ordinary shares in TEA	5,775	404,250	3,500	245,000	2,275	159,250
Cash		33,120		32,222		898
		437,370		277,222		160,148

* (222750 + 62370 – 77000 – 81000 – 94000) = 33,120

Beneficiaries" Accumulation a/cs

	K(sh)	L(sh)	M(sh)		K(sh)	L(Sh)	M(sh)
Maintenance payment	77,000	81,000	94,000	Bal b/d	207,900	103,950	34,650
Distribution a/c	277,222			Income (Caps)	74,250	74,250	74,250
					37,422	18,711	6,237
Bal c/d	-	133,236	26,912	Income (Acc)	34,650	17,325	5,775
	354,222	214,236	120,912	Reval gain (TEA)	354,222	214,236	120,912

Trust Capital a/c

	Shs.		Shs.
Distribution a/c	836,000	Bal. b/d	1,980,000
		Reval gain: (KAB)	144,000
		: (BBB)	252,000
Bal c/d	1,672,000	: (TEA)	132,000
	2,508,000		2,508,000

Trust Income a/c

	Shs. Capital	Shs. Accumulation		Shs. Capital	Sh Accumulation
Accum. a/c K	74250	37422	Investment a/c	222750	62370
L	74250	18711			
M	74250	6237			
	222750	62370		222750	62370

Trust Cashbook

	Shs. Capital	Shs. Income		Shs. Capital	Shs Income
Inv.a/c:Income	-	222,750	Accum a/c: Maint.	-	252,000
Inv a/c:Income		62,370	Distribution a/c	-	32,222
			Bal. c/d	-	898
	-	285,120		-	285,120

PAPER 2

QUESTION ONE

Format I

Veneering Manufacturing PLC
Income statement for the year ended 30 June 19X9

	£	£
Turnover		791,000
Cost of sales		(507,000)
Gross profit		284,000
Operating expenses		
Distribution	111,000	
Administration	74,300	(185,300)
Operating profit		98,700
Investment Income		42,300
		141,000
Finance costs		(8,900)
Profit before tax		132,100
Tax		(66,500)
Profit after tax		65,600

Format II

Veneering Manufacturing PLC
Income statement for the year ended 30 June 19X9

	£	£
Turnover		791,000
Other operating income		-
		791,000
Expenses		
Change in finished goods and W.I.P.	(31,000)	
Raw materials consumed	352,400	
Depreciation & Ammortisation	26,200	
Staff costs	306,600	
Other operating expenses	38,100	(692,300)
Operating profit		42,300
		141,000
Finance costs		(8,900)
		132,100
Tax		(60,500)
Profit after tax		65,600

Veneering Manufacturing Plc
Statement of changes in Equity for the year ended 30 June 19X9

	Preference share capital	Ordinary Share capital	Share Premium	Proposed Dividends	Retained Profitt	Total
	£	£	£	£	£	£
Bal as at 1 July 19X8	100,000	400,000	136,400	-	30,900	667,300
Prior period adjustment	-	-	-	-	-	-
Balance as ….	100,000	400,000	136,400	-	30,900	667,300
Net gains in P & L	-	-	-	-	-	-
Profit for year	-	-	-	-	65,600	65,600
Dividends: Interim	-	-	-	-	(2,800)	(2,800)
Final proposed PSC	-	-	-	2,800	(2,800)	-
OSC	-	-	-	20,000	(20,000)	-
Bal as at 30 June 19X9	100,000	400,000	136,400	22,800	70,900	730,100

Veneering Manufacturing
Balance Sheet as at 30 June 19X9

	£	£
Non current assets		
Property plant and equipment		550,700
Intangible Assets		
Investments Quoted		32,000
Unquoted		60,200
Current Assets		
Stock	129,300	
Debtors	105,100	
Prepayments	2,300	
Bank Balance & Cash in hand	182,920	419620
Total assets		1,062,520
Equity and Liabilities		
Authorised Share Capital		
10,000 5.6% preference shares @ £1 each		100,000
500,000 £1 ordinary shares		500,000
Issued and full paid		600,000
5.6% preference shares @ £1 each		100,000
400,000 £1 ordinary shares		400,000
Capital Reserves		
Share premium		136,400
Revenue Reserve		
Proposed Dividends	22,800	
Retained profit	70,900	93,700
Share holders funds		730,100
Non-current Assets		
Debenture		150,000
Current liabilities		
Creditors	78,580	
Accruals	8,000	
Tax payable	95,840	182,420
Total equity and liabilities		1,062,520

Notes to the Accounts:

1) Accounting policies

These financial statements have been prepared under the historical cost basis of accounting and in accordance with the International Financial Reporting Standards.

Property Plant and Equipment is carried at cost less depreciation provided to date and depreciation is based on the estimated useful lives of the assets.

Asset	Rate
Freehold and Building	-
Plant and Equipment	10% on cost
Office Furniture	10% on reducing balance

Inventory comprises of raw materials, work in progress and finished goods and is stated at the lower of cost and net releasable value.

2. Operating Profit

The operating profit for the year is aimed allowing expenses:

	£
Depreciation	26,200
Directors emoluments:	
Fees	600
Salaries	56,690
Staff costs	249,310
Auditors remuneration	1,000

3. Taxation

The corporation tax for the yaer is based on the adjusted profits for tax pupsoe at a corporation tax rate of 30%

4. Property plant & equipment

	Land & Building	Plant & Equipment	Office Furniture	Total
Cost/Valuation	£	£	£	£
Bal as at 1 July 19X8	414,900	235,000	301,000	689900
Additions	20,000	10,000	-	30,000
Disposals	-	(5,000)	-	(5,000)
Bal as at 30 June 19X6	434,900	240,000	30,000	704,900
Depreciation				
Balance as at 1 July 19X8	-	124,000	8,000	132,000
Transfer to Revaluation R	-	-	-	-
Charge for tea	-	24,000	2,200	26,200
Eliminated or Disposal	-	(4,000)	-	(4,000)
	-	144,000	102,000	154,200
Bal as at 30 June 19X9	434,900	96,000	19,800	550,700
Bal as at 1 July 19X8	414,900	111,000	22,000	547,900

Workings for cost of sales

Manufacturing Account

	£	£
Raw Materials		
Opening Stock		93,200
Purchases	319,600	
Carriage Inwards	16,000	335,600
Raw materials available for consumption		428,800
Less: closing stock of raw materials		(76,400)
Raw materials consumed		352,400
Factory wages		137,900
PRIME COST		490,300
Factory overheads		
Plant and equipment Depn (10% x 240,000)	24,000	
Power and lighting	9,100	
Insurance	6,100	
Repairs to plant	8,500	47,700
Total cost of production		538,000
Add: Work in progress b/f		9,200
		547,200
Less: Closing W.I.P.		(12,800)
Cost of finished goods		534,400

Cost of sales

		£
	Opening stock of finished goods	12,700
	Cost of finished goods	534,400
		547,100
	Closing stock	(40,100)
	C.O.G.S	507,000

Expenses	Distn.	Adm
Depreciation Office furniture		2,200
Provision for bad debts	2,500	-
Plant hired (kn		1,300
Rates	-	3,800
Repairs to premises	-	600
Admn salaries	-	61,300
Salesmen salaries	100,000	-
Postage & Telephone	-	1,800
Printing and stationery	-	400
Legal and professional charges	-	800
Advertising	1,700	-
Directors fees	-	600

QUESTION TWO

Banjo, Harpa and Viola

Assumptions/Notes

1. Equipment and motor cars are depreciated at 5% and 10%, for the second half of the year, on book values on 1st September 19 7 and not on book values on 1st March 19 8.
2. The loss on the disposal of the motor car to Banjo was charged to the P&L a/c for the 6 months ____ to 28th February 19 8.
3. It is assumed that depreciation is not already included in the operating expenses.
4. In the solution below, rent payable to Harpa) is deducted from net current assets. An alternative would be to include this in Harpa"s current account.

Capital Accounts								Current Accounts							
	Banjo	Harpa	Viola		Banjo	Harpa	Viola		Banjo	Harpa	Viola	P&L	Banjo	Harpa	Viola
Motorcar	207	-	-	Bal b/f	720	450	360	Drawings	-	720	675	Pol.Int	54	67.5	43,875
Goodwill	-	540	540	Goodwill	450	360	270	Cap. a/c	519,938	-	-	Share			
CB	1,347,938	-	-	Studio		180	135	Bal c/d	-	139,237	67,425	ofProf.	465,938	791,757	698,551
Loan a/c	360	-	-	Prof.	225										
Bal c/d				Curr A/c	519,938				519,938	859,237	742,425	Bal	519,938	859,237	742,425
	-	450	225									b/d		139,237	67,425
	1,914,938	990	765		1,914,938	990	765								
				Bal b/d		450	225								

Profit and Loss Account for the year ended 31st August 19 8

	6 mts to 28 Feb Shs."000"	6 mts to 31 Aug Shs."000"	Year to 31 Aug Shs."000"
Fees	1,800	1,400	3,200
Operating Exps	450	350	800
Deprec: Motor cars	72	45	117
Equipment	9	9	18
Loss on disposal of car	36	-	36
Studio rent	-	75	75
Loan interest	-	32.4	32.4
	567	511.4	1,078.4
Net profit	1,233	888.6	2,121.6
Interest on capital			
B	54	-	54
H	33.75	33.75	67.5
V	27	16.875	43.875
	114.75	50.625	165.375
Share of Profit			
B 5/12) 465.937			
H 4/12) 372.75		-	465.937
V 3/12) 279.563		(1/2) 418,987	791.737
Min.279.5)		(1/2) 418.988	698.551
	1,118.25	837.975	1,956,225
	1,233	888.6	2,121,600

Balance Sheet as at 31st August 19 8

Fixed Assets NBV)			Shs. "000"
Motor cars			360
Equipment			162
			522
Net current assets			719,662
			1,241,662
	Harpa	Viola	
Capital accounts	450	225	675
Current accounts	139,257	67,425	206,662
			881,662
18% loan Banjo)			360
			1,241,662

QUESTION THREE

BRANCH STOCK A/C

	Sh."000"		Sh."000"
Bal b/d	6,210	GSTB: Returns	992
GSTB	47,360	Branch mark-up: Returns	478
Branch mark up	23,680		1,470
	71,040	Branch mark-up: reduction in Selling price	
Debtors: Returns	186	Branch debtors: Sales	360
Kisii Br. GSTB	164	Kitale BR. Stock: Stock transfer	27,990
Branch mark up	82	Profit & Loss: Stolen goods	321
		Markup stolen goods	280
			140
		Cash sales (cash stolen)	420
		Branch cash sales	129
		Bal c/d	38,592
			8,400
	77,682		77,682

BRANCH MARKUP A/C

	Sh."000"		Sh."000"
Branch stock returns	478	Bal b/d	2,010
Branch stock markdowns	360	Branch stock a/c	23,680
Debtors: returns to Head office	174	Kisii branch markup: S	
Kitale branch markup: stock transfer	107	Stock transfer	82
Branch stock: lost goods	140		
Gross profit to Profit & Loss	21,773		
Balance c/d	2,740		
	25,772		25,772

WORKINGS:

	OPENING STOCK			RETURNS TO HEAD OFF			CLOSING STOCK		
	Normal	Markdown	Total	Normal	Markdown	Total	Normal	Markdown	Total
	Sh"000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh"000"	Sh."000"	Sh."000"
Cost	3,800	400	4,200	912	80	992	5,480	180	5,660
Profit	1,900	110	2,010	456	22	478	2,740	(0)	2,740
Selling Price	5,700	510	6,120	1,368	102	1,470	8,220	180	8,400

GOODS SENT TO BRANCH

	Sh."000"		Sh."000"
Branch stock: Returns	992	Branch stock	47,360
Branch debtors: returns	348		
To trading	46,020		
	47,360		47,360

SIR CHARLES
MEMORANDUM TRADING, PROFIT AND LOSS ACCOUNT
FOR THE YEAR TO 30.06.96

	Sh."000"	Sh."000"
Cash sales(including cash stolen)		38,721
Credit sales		27,990
		66,711
Less returns: By debtors to Kisumu	186	
By debtors to Head office	522	(708)
Cost of sales		66,003
Opening stock at cost		
Goods from head office	4,200	
Goods from Kisii	47,360	
Less: Returns to Head office by branch	164	
Transferred to Kitale	(992)	
Stolen goods	(214)	
Returns to Head office by debtors	(280)	
Less opening stock (8,529 – 2,603)	(348)	
Gross profit	(5,660)	44,230
Expenses: Sundry expenses		21,773
Stolen cash	19,200	
Stolen stock	129	
	280	(19,609)
		2,164

QUESTION FOUR

The duties of the interim liquidator are:

1. To carry on the business of the company, so far as may be necessary for the beneficial winding-up thereof;
2. To bring or defend any legal proceedings in then name and on behalf of the company;

3. To pay any class of creditors in full;
4. To make any compromise or arrangement with creditors or persons claiming to be creditors;
5. To compromise all calls, and liabilities to calls, debts and liabilities capable of resulting indebts and ll claims and all questions affecting the assets or the winding up of the company, with power to take security and give complete discharges;
6. To employ an advocate to assist him in the performance of his duties;
7. To rectify the register of members;
8. To sell all the property of the company by public auction or private contract;
9. To do all such other acts and things as may be necessary for winding up the affairs of the company and distributing its assets;

(b) The duties of a Receiver and Manager are:

1. To observe the directions given in the order appointing him (if appointed by the court) give the security required;
2. To give notice of his appointment to all debtors;
3. To collect any rent in arrears and all sums due and to give receipts;
4. To insure real property against fire;
5. To receive proposals and make arrangements as regards the leasing of any property over which he is the receiver;
6. To execute necessary repairs;
7. To pass accounts as directed;
8. To apply the monies received by him to pay rents and outgoings of the mortgaged property, to pay his commission, to pay interest and principal to mortgage and paying the residue to the person who would otherwise have been entitled.

Ngaki Stores Ltd

Liquidator"s Statement of Receipts and Payments

Receipts		Shs	Payments	(a) Shs	(b) Shs
Amount realized from all the assets			Liquidation Expenses	75,000	75,000
Not specifically pledged		1,697,500	To preferential Creditors	25,000	25,000
Amount realized from			To Unsecured Creditors	445,000	412,00
realization of assets				545,000	512,000
Specifically			To shareholders		
Pledged	402,500		Preference	635,714	645,143
Deduct:: Paid to			Class "A" Ordinary	385,714	395,143
Secured creditors	250,000		Class "B" Ordinary	188,572	196,114
		152,500	Class "C" Ordinary	95,000	101,600
				1,305,000	1,338,000
		1,850,000		1,850,000	1,850,000

Outstanding wages:

Assumed not in the books at 1st May 1992:

	Total	Preferential	Unsecured
	Shs.	Shs.	Shs.
Clerks 4 x (4 months @ sh.1,5000 = sh.6,000)	24,000	16,000	8,000
Messengers 4 (3 x months @ sh.150 = sh.2,250)	9,000	9,000	-
	33,000	25,000	8,000

Unsecured Creditors:	(a)	(b)
	Shs	Shs
Sundry creditors as per schedule	437,000	404,000
Wages outstanding ranking as unsecured, As per accompanying schedule	8,000	8,000
	445,000	412,000

	Shareholders:	Issued	Paid	Due from Shareholders
		Shs	Shs	shs
1.	10,000 8% Pref. Shares of shs100	1,000,000	1,000,000	Nil
2.	10,000 "A" old shares of shs 100	1,000,000	750,000	250,000
3.	8,000 "B" old shares of shs 100	800,000	480,000	320,000
4.	7,000 "C" old shares of shs 100	700,000	350,000	350,000
		3,500,000	2,580,000	920,000

	Repayable if Total Capital paid:	Due from Shareholders		Repaid	
	(a)	(b)		(a)	(b)
1.	635,714	645,143	NIL	635,714	645,143
2.	535,714	645,143	250,000	385,714	395,143
3.	508,572	516,143	320,000	188,572	196,114
4.	445,000	451,600	350,000	95,000	101,600
	2,225,000	2,258,000	920,000	1,305,000	1,38,000

	(a)	(b)
	Shs	Shs
Cash available to repay capital after expenses, preferential And unsecured creditors	1,305,000	1,338,000
Cash received to make shares full paid up	920,000	920,000
Cash available if all calls received in full	2,225,000	2,258,000
Amount repayable as capital if shares are fully paid up	3,580,000	3,580,000
Capital repayable: Dividend per shs.20	Shs.12.71	Shs.12.90

QUESTION FIVE

a) (i) A will is a legal declaration by a person of his wishes and intentions regarding the disposition of his property after his death duly made and executed according to the provisions of the law of Succession Act.

(ii) Reasons for failure of legacies:

Ademption

When the gift specifically bequested does not exist within the testator"s property at the time of death, the gift is said to have "adeemed". However, if the gift had been converted into property of a different kind, and such new property falls into the category "traceable" such new property will replace the original gift and be handed over to the beneficiary.

Lapse

Where the beneficiary (legatee) predeceases the testator (legator) the gift is said to fail due to "lapse". There are two exceptions to the rule:

If the legatee is an issue of the testator; and the legatee, although deceased, left surviving issue of their own, the gift will pass to such surviving issue form the testators estate).
The testator felt a moral need (or recognised a moral obligation) towards the legatee.

Uncertainty

A gift not expressive of any definite intention shall be void for uncertainty; such uncertainty arising as to:
What is being given
To whom it is being given
The quantity of the interest being given.

Disclaimer

A beneficiary can always disclaim a legacy – and will probably do so if the gift is subject to unfair or unreasonable conditions.

Gifts subject to illegal conditions

A gift will fail if it has an illegal condition attached to it, eg " I leave Sh.20,000 to my gardener Mwangi provided he murders my wife". However if the gift is only subject to a condition contrary to public policy (repugnant to equity and justice) the gift will pass whether the condition was fulfilled or not.

(b) Mr Ruare:

The law of intestacy provides for the following situations:
A deceased intestate does not leave behind a spouse or children.
A deceased intestate is survived by a spouse but no children
A deceased intestate is survived by children but no spouse.
A deceased intestate leaves behind both a spouse and children.

NB: If a deceased intestate leaves behind several wives and children all wives married under a systemof law that permits polygamy, then his property is divided according to the "households", after which any of the 4 situations above may apply.

The division amongst the "households" is based on the number of units in each household – where "Unit" refers to surviving spouse or child.

In the case of Mr Ruare:

Households:	House A	House B	House C	Total
Spouse:	1 unit	1 unit	-	2 units
Children	3 units	-	2 units	5 units
				7 units
Property division Fractions	4/7	1/7	2/7	

Distribution of personal and household effects:
House A: Luky will obtain absolutely:
4/7 X 350,000 = Sh. 200,000 of household effects.

House B: Chity will obtain absolutely:
1/7 X 350,000 = Sh. 50,000 of household effects.

House C: Short and Tall will each get absolutely
½ X 2/7 X 350,000 = Sh. 50,000 each in household effects. (This is because their mother Beaty had already died).

Distribution of intestate"s net estate

House A: Luky will get a life interest in the net estate worth.4/7 X 3,150,000 = Sh. 1,800,000

Upon her death (or remarriage) it will be divided equally amongst Peter, Lowe and Ricci – each getting Sh. 600,000 worth of property.

Household B:

Chity will get a life interest in property worth 1/7 X 3,150,000 = Sh. 450,000.
Upon her death, (or remarriage) it will devolve as follows:
To Mr Ruare"s father; or if dead
To Mr Ruare"s mother; or if dead
To Mr Ruare"s brothers and sisters and children of deceased brothers and sisters in equal shares; or if none.
To Mr Ruare"s half brothers and half sisters and children of deceased half brothers and half sisters inequal shares; or if none.
To relatives who are in the nearest degree of consanguinity up to and including the sixth; or if none To the consolidated fund of the government.

Household C:

Beaty"s children short and Tall will each obtain property worth:½ X 2/7 X 3,150,000 absolutely.
This amounts to Sh. 450,000 per person.

<table>
<tr><th></th><th>Luky</th><th>Chity</th><th>Peter</th><th>Lowe</th><th>Ricci</th><th>Short</th><th>Tall</th></tr>
<tr><td>Household & personal</td><td>200,000 (absolute)</td><td>50,000 (absolute)</td><td>-</td><td>-</td><td>-</td><td>50,000 (absolute)</td><td>50,000 (absolute)</td></tr>
<tr><td rowspan="2">Net estate</td><td rowspan="2">1,800,000 (Life interest)</td><td rowspan="2">450,000 (Life interest)</td><td>600,000</td><td>600,000</td><td>600,000</td><td rowspan="2">450,000 (Absolute)</td><td rowspan="2">450,000 (Absolute)</td></tr>
<tr><td colspan="3">(Absolute upon death or remarriage of Luky)</td></tr>
</table>

PAPER 3

QUESTION ONE

Rich Limited and its subsidiary

Consolidated Balance Sheet as at 30th November 1988

Non current assets	£	£
Freehold land – cost or valuation		800,000
Freehold Buildings (NBV)		1,400,000
Machinery (NBV)		1,560,000
Goodwill on consolidation		3,760,000
		144,000
Investment in associated co.		
Group share of net assets of assoc. company	696,000	
Premium paid on the acquisition	48,000	744,000
Current assets		4,648,000
Inventories		
Accounts Receivable	1,620,000	
Dividend Receivable	800,000	
Cash in Transit	32,000	
Bank and Cash Balances	12,000	
Total Assets	100,000	2,564,000
		7,212,000
Share cap. : Issued and Fully paid		
20,000 15% cumulative pref.shares of £20		400,000
120,000 ordinary shares of £20		2,400,000
Reserves		2,800,000
Share Premium account		320,000
Group share of assoc. reval. reserve		160,000
		480,000
Revenue reserves: Profit & Loss A/c		639,200
		3,919,200
Minority interest		168,800
Non-Current Liabilities		
12% debentures		
Deferred taxation	1,600,000	
	334,000	1,934,000
Current liabilities		
Bank overdraft	40,000	
Accounts payable	696,000	
Corporation tax	208,000	
Dividend to minority	6,000	
Proposed dividend	240,000	1,190,000
		7,212,000

Workings

COC

M.Inv in N.	720,000	N: OSC	480,000
		POL	96,000
		GW c/d	144,000
	720,000		720,000

MIN.INT

N: OSC	120,000
P&L	48,000
	168,000

P&L working)

Stock	20,000	M:	400,000
		N:	99,200
		Y:	104,000
		M:N.Div	24,000
Bal c/d	632,000	M:Y.Div	32,000
	659,200		659,200

Investment in Associated Co.

Cost	480,000
Share capital & Reserves	1,080,000
40%	432,000
Premium on Acquisition	48,000

Group share of net assets at present:
40% x 1,740,000 = 696,000

Notes:

It is assumed that the dividends proposed by Prestin Ltd and Guise Ltd had not yet been accounted for by Rich Ltd.

It is assumed that the price of £30 per share applies to the 24,000 shares in Preston Ltd and not to the 20,000 shares in Rich Ltd).

QUESTION TWO

Cat and Mouse

(a) Trading and Profit and Loss Account for the year ended 31st December 2001

	HO £	BRANCH £	COMB. £
Sales	39,000	26,000	65,000
Opening Stock	13,000	4,400	17,400
Purchases/GDS from HO	37,000	17,200	37,000
	50,000	21,600	54,400
Goods sent to Branch	(18,000)		
	32,000		
Closing stock	(14,440)	(6,570)	21,810
Cost of sales	17,560	15,030	32,590
Gross profit	21,440	10,970	32,410
Salaries & wages	4,500	3,200	7,700
Carriage & traveling	2,200	960	3,160
Administrative expenses	1,440	960	2,400
Increase/(Decrease) Bad Debt Prov.	50	20)	30
Depreciation: Furniture & Fittings	150	110	260
Trade & General Expenses	3,200	1,800	5,000
Commission to Manager	-	360	360
	11,540	7,370	18,910
Net Profit	9,900	3,600	13,500
Commission to cat			900
Interest on Fixed Capital: Cat		840	
Mouse		240	1,080
Share of profits: Cat (¾)		8,640	
Mouse(¼)		2,880	11,520
			13,500

Workings:

GP	21,440	10,970
EXPS.	11,540	7,010
	9,900	3,960
Comm1/11)	900	360
NP	9,000	3,600

HO Bks. BR.Curr. A/c

B/f	6,800	CIT A/c	2,400
Admin.Exps	960	GIT A/c	800
HO P & L A/c	3,600	c/d	8,160
	11,360		11,360
B/d	8,160		

CIT

Br.Curr A/c	2,400

GIT

Br.Curr A/c	800

Branch Books
HO Current A/c

B/f	3,600
Pol. Admin.	960
Pol. Profit	3,600
	8,160

(b) Cat and mouse

Balance Sheet as at 31st December 2001

Non Current Assets:	Cost £	Accum.Deprec. £	£
Furniture & Fittings	2,600	1,110	1,490
Current Assets:			
Stock on hand	21,010		
In transit	800	21,810	
Debtors:	10,000		
Deduct: Prov.	830	9,170	
Cash in Transit		2,400	
Cash at Bank HO)		600	
		33,980	
Current Liabilities:			
Bank Overdraft BR)		1,350	
Creditors		6,200	
Accruals Manager"s Comm)		120	
		7,670	
			26,310
			27,800

	Cat £	Mouse £	£
Fixed Capital Accounts	14,000	4,000	18,000
Current Accounts			
Commission	900	-	
Interest	840	240	
Share of profits	8,640	2,880	
	10,380	3,120	
Drawings	(2,500)	(1,200)	9,800
	7,880	1,920	27,800

BRANCH	£	£	£
Furniture & Fittings		1,100	
Depreciation		460	
			640
Stock		6,570	
Debtors	3,000		
Less: Provision	180	2,820	
		9,390	
Creditors		(400)	
Bank Overdraft		(1,350)	
Commission		(120)	
		(1,870)	7,520
			8,160

QUESTION THREE

TED SAFARI

Plant and Machinery a/c

	Sh. „000"		Sh. „000"
Bal b/d	4,000		

Motor vehicles a/c

	Sh. „000"		Sh.„000"
Bal b/d	5,000		

Opening stock a/c

	Sh. „000"		Sh."000"
Bal b/d	3,000	Trading	3,000

Debtors a/c

	Sh."000"		Sh. „000"
Bal b/d	7,000	Cash	29,000
Sales	30,000	Bal c/d	8,000
	37,000		37,000

Bank a/c

	Sh. „000"		Sh. „000"
Cash	28,000	Bal b/d	3,000
Loan from Uncle	5,000	Drawings (Mortg.)	600
		Drawings (car loan)	225
		Lessor a/c	2,550
		Creditors	22,000
		Expenses	5,000
Bal c/d	1,625	O/draft interest	750
		Drawings	500
Secured	34,625		34,625

Cash a/c

	Sh. „000"		Sh. „000"
Debtors	29,000	Bank	28,000
		Drawings	1,000
	29,000		29,000

Creditors a/c

	Sh. „000"		Sh. „000"
Bank	22,000	Bal b/d	5,000
Bal c/d	6,000	Purchases*	23,000
	28,000		28,000

*missing

Unsecured

Expenses a/c

	Sh. „000"		Sh. „000"
Bank	5,000	P&L*	6,000
Bal.c/d-(accruals)	1,000		
	6,000		6,000

*missing entry

Analysed:

Unpaid wages	200 (preferential)
PAYE	260 (preferential)
Unpaid wages	100 (Unsecured)
Sundry Accruals	440 (Unsecured)

1,000

Lessor a/c (Vehicles)

	Sh. „000"		Sh.„000"
Bank	2,550	Bal b/d	3,500
Bal c/d	1,550	Finance cgs	600
	4,100		4,100

secured

Drawings a/c

	Sh. „000"		Sh. „000"
Cash	1,000		
Bank (Mortgage)	600		
Bank (Car loan)	225		
Bank (pers.Exps)	500	Bal c/d	2,325
	2,325		2,325

Profit and Loss a/c for the 10 months to 31 October 1995

	Sh. „000"	Sh. „000"
Sales		30,000
Cost of sales		
Opening stock	3000	
Purchases	23,000	
	26,000	
Less closing stock	(2,000)	
		(24,000)
Gross Profit		6,000
Expenses		
General expenses	6,000	
Finance cgs on leases	600	
Bank overdraft interest	750	(7,350)
Net Loss		(1,350)

Business Balance sheet as at 31 October 1995

Fixed Assets	**Sh. '000'**	**Sh. '000'**
Plant and Machinery		4,000
Motor vehicles		5,000
		9,000
Current Assets		
Stock	2,000	
Debtors	8,000	
	10,000	
Current liabilities		
Creditors	(6,000)	
Accrued expenses	(1,000)	

Bank overdraft	(1,625)	
	(8,625)	
Net current assets		**1,375**
		10,375
Capital		7,500
Less Loss		(1,350)
Less drawings		(2,325)
		3,825
Loan from uncle	5,000	
Finance lease obligation	1,550	
		6,550
		10,375

Personal Liabilities: Mortgage a/c

	Sh. „000"		Sh. „000"
Payments made	600	Bal b/d	3,000
Bal c/d	2,900	Int. charged	500
	3,500		3,500

Personal Liabilities: Car Loan a/c

	Sh.		**Sh.**
Payments made	225	Bal b/d	500
Bal c/d	375	Int. charged	100
	600		600

Workings for fully secured creditors:

	Liability Sh."000"	Security Sh."000"	Surplus Sh."000"
Bank o/draft	1,625	1,800	175
House mortgage	2,900	4,200	1,300
Business fin. Lease	1,550	2,500	950
Private-car loan	375	400	25
	6,450	89,00	2,450

Workings for unsecured creditors

	Liability: Sh. „000"
Unpaid wages	100
Trade creditors	6,000
Sundry accrued exps	440
Loan from Uncle	5,000
	11,540

Workings for preferential creditors

	Liability: Sh. „000"
Unpaid wages	200
PAYE due	260
	460

TED SAFARI
Statement of affairs as at 31 October 1995

Gross Liabili-ties	Liabilities	Expected to rank	Assets	Expected toproduce
Sh."000"		Sh. „000"		Sh.„000"
11,540	Unsecured creditors	11,540	Stocks (cost Sh2m)	1,600
6,450	Creditors fully secured	6,450	House furniture and contents	100
	Less value of security	(8,900)	Debtors:	5,500
	Surplus to contra	2,450	Surplus from creditors	
			Fully secured per contra	2,450
460	Preferential creditors			9,650
	deducted per contra	460	Deduct preferential creditors per contra	(460)
				9,190
			Deficiency as per deficiency Account	2,350
18,450		11,540		11,540

Deficiency a/c

	Sh. „000"		Sh. „000"
Excess of assets over liabilities		Trading loss	1,350
as At 31st Dec 1994:		Drawings	1,500
- Business		Personal costs:	
- Personal	7,500	Mortgage interest	500
Estimated surplus on realisation	1,500	Car-loan interest	100
Assets:- House		Estimated loss on realisation	
		- Plant and Machinery	
Deficiency as per statement of affairs	200	- Motor vehicles	2,200
		- Stock	2,500
		- Debtors	400
	2,350	- House furniture	2,500
		- Motor car	200
			300
	11,550		11,550

QUESTION FOUR

Kena, Limo and Mara

NB: The fact that the trust had a wide investment clause means there is no need to divide the fund into "fixed interest", "wider range" or "special range" sections.

June 1992:
1 June 1995
31 May 1996

Fund is established

Accumulation investments — Accumulation a/cs balance — K turned

Made = 5775 Shares 21 years in TEA

= K	207900
= L	103950
= M	34650

Distribution Statement: Capital Assets

Total		Distribution To K		To remain in Trust	
Nominal/No	Value Shs.	Nominal/No	Value Shs.	Nominal/No	Value Shs.
Ordinary Shares in KAB 9,600	576,000	600	36,000	9,000	540,000
Ordinary shares in BBB12,600	1,008,000	10,000	800,000	2,600	208,000
Shares in TEA 1 3,200	924,000	-	-	13,200	924,000
	2,508,000		836,000		1,672,000

Distribution Statement: Accumulation assets

	Total		To K		To remain in trust	
	Nominal/No.	Value Shs.	Nominal/No	Value Shs.	Nominal/No.	Value Shs.
Ord. shares in TEA	5,775	404,250	3,500	245,00	2,275	159,250
Cash		33,120		32,222		898
		437,370		277,222		160,148

* (222750 + 62370 – 77000 – 81000 – 94000) = 33,120

Beneficiaries" Accumulation a/cs

	K(sh)	L(sh)	M(sh)		K(sh)	L(Sh)	M(sh)
Maintenance payment	77,000	81,000	94,000	Bal b/d	207,900	103,950	34,650
Distribution a/c	277,222			Income (Caps)	74,250	74,250	74,250
				Income (Acc)	37,422	18,711	6,237
Bal c/d	-	133,236	26,912	Reval gain (TEA)	34,650	17,325	5,775
	354,222	214,236	120,912		354,222	214,236	120,912

Trust Capital a/c

	Shs		Shs.
Distribution a/c	836,000	Bal. b/d	1,980,000
		Reval gain: (KAB)	144,000
		: (BBB)	252,000
Bal c/d	1,672,000	: (TEA)	132,000
	2,508,000		2,508,000

Trust Income a/c

	Shs. Capital	Shs. Accumulation		Shs. Capital	Shs. Accumulation
Accum. a/c K	74250	37422	Investment a/c	222750	62370
L	74250	18711			
M	74250	6237			
	222750	62370		222750	62370

Trust Cashbook

	Shs. Capital	Shs. Income		Shs. Capital	Shs. Income
Inv.a/c:Income	-	222,750	Accum a/c: Maint.	-	252,000
Inv a/c:Income		62,370	Distribution a/c	-	32,222
			Bal. c/d	-	898
	-	285,120		-	285,120

QUESTION FIVE

Civil Servants Pension Fund
Statement of changes in net assets for the year to 31 October 2001

	Sh. „000"	Sh. „000"
Contributions received:		
From employees: Normal	980	
From employers: Additional	25	
		1005
From employees: Normal	300	
From employers: Additional voluntary	200	500
Transfers in:		
Group transfers in from other schemes	75	
Individual transfers in from other Schemes	14	89
Investment income:		
Income from fixed interest securities	580	
Dividends from equities	400	
Income from unit trusts	70	
Rents from properties	45	1095
Other income: Claim on term insurance policies		21
		2710
Benefits payable:		
Pensions	(390)	
Commutation of pensions and lump sum retirement benefits	(15)	
Death benefits	(15)	
Payments to and on a/c of leavers:		
Refund of contributions	(28)	
Group transfers out to other schemes	(40)	
Individual transfers out to other schemes	(5)	
		(493)
		2217
Profit on disposals of investments	2	
Changes in market values of investments:		
Loan stock in KVM	10	
Shares in Flamingo Airways	(5)	
Payments: Premiums on term insurance policies	(49)	
: Admin expenses	(150)	
		(199)
		2025
Taxation on income		(460)
Net change for the year		1565

Civil Servants Pension Fund
Statement of Net Assets as at 31 October 2001

	Sh. „000"	Sh. „000"
Investment Assets		
Fixed interest securities: 11% T.Stock	400	
: KVM loan stock	210	
		610
Equity investments: Flamingo Airways shares		195
Unit trust investments		350
Property: Freehold		2200
Cash and demand deposits		35
Insurance policies		400
Debtors on investment transactions	16	
Creditors for investment transactions	(22)	
		(6)
		3784
Fixed Assets		
Leasehold property in Nairobi CBD		2000
		5784
Long term borrowings		
HFCK Loan		(1000)
		4784
Current Assets:		
Contributions due within 30 days	56	
Current Liabilities		
Unpaid benefits	(30)	
		26
Net Assets		4,810
Accumulated Fund at 1 Nov.2000		3245
Net new money invested per revenue a/c including changes in market value of investments		1565
Accumulated Fund at 31 October 2001		4810

PAPER 4

QUESTION ONE

WILSON COMPANY

INCOME STATEMENT FOR YEAR ENDED 31.12.20X7

	Shs. Million	Shs. Million
Revenue		2,695
Cost of sales		2,194
GROSS PROFIT		501
Other incomes:		26
		527
Less Expenses		
Distribution costs	20	
Administration expenses	276	
Other expenses	107	
Finance cost	20	(423)
Profit by tax		104
Income tax expense		(30.0)
Profit for the period		74

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31.12.20X7

	Pref. S. Cap Shs. M	O.S.C. Shs. M	Share Premium Shs. M	Revaluation Reserve Shs. M	General Reserve Shs. M	Retained Profits Shs. M	Total Shs. M
Balance as at 1.1.X7	100	350	-	-	171	242	863
Change in Acctg. Policy/correction of errors	-	-	-	-	-	-	-
Restated balance	100	350	-	-	171	242	863
Revaluation surplus on PPE	-	-	-	392	-	-	392
Transfer to retained profit in sch. of PPE	-	-	-	-	-	-	-
Foreign currency exchange difference	-	-	-	-	-	-	-
Gains/loss on investment revaluation							
Total income reported directly in equity	-	350	-	392	-	-	392
Profit for the period	-	-	-	-	-	74	74
Total Incomes reported during the period	-	350	-	392	171	316	1329
Issue of shares	-	50	70	-	-	-	120
Transfer to general reserve	-	-	-	-	16	(16)	-
Dividends Paid	-	-	-	-	-	(15)	(15)
Balance as at 31.12.20X7	-						
	100	400	70	392	187	285	1434

1. Cost of sales:

	Shs. M	Shs. M
Opening Inventory		190
Purchases	2,152	
Inventory for M and Co.	34	2186
		2376
Less: Closing Inventory		(220)
Add: depr. Bldg.	2	
Plant n" machinery	36	38
Cost of Sales		2194

2. Expenses:

	Distribution Costs Shs. M	Administration expenses Shs. M	Other expenses Shs. M	Finance costs Shs. M
Interest on debentures	-	-	-	20
Wages and salaries	-	254	-	-
Light and Heat	20	14	-	-
Sundry expenses (113-6)	-	-	107	-
Goodwill amorsed	-	4	-	-
Audit fees	-	4	-	-
	20	276	107	20

3. Property, Plant n" Equipment.

	Shs. M
Land n" Bldgs. (NBV)	800
Plant n" Machinery (NBV)	298
	1098

Land n" Bldg.

Shs. M		Shs. M	
Bal b/d	430		
Rev. Revenue	370	Bal c/d	800
	800		800

Revaluation Revenue

Shs. M		Shs. M	
		Land	370
Bal c/d	392	L & B – Dep	22
	392		392

Depr"

Shs. M		Shs. M	
R.R	22	Bal b/d	20
		P/L	2
	22		22

Plant n" Machinery

Shs. M		Shs. M	
Bal b/d	830	Disposal	350
		Bal c/d	480
	830		830

Depr" A/C

Shs. M		Shs. M	
Disp.	76	Bal b/d	222
Bal c/d	182	P & L	36
	258		258

Disposal			
Shs. M		Shs. M	
P & Machinery..	350	Depr"	… 76
Profit	26	Susp.	300
	376		376

Wilson & Co.
Balance Sheet at at 31.12.20X7

	Shs. M	Shs. M
Non-Current Asset		
Property, Plant n" Equipment		1098
Goodwill		16
Investment		231
		1345
Current Assets		
Inventory	220	
Trade n" other receivables	179	
Prepayments	6	
Cash	126	531
TOTAL ASSETS		1876
Preference share capital		100
Ordinary share capital		400
		500
Share premium		70
Revaluation Reserve		392
General reserve		187
Retained profits		285
Shareholders fund		1434
Non current liabilities		
10% Debenture		200
Current Liabilities:		
Trade n" other payable	195	
Acruals	17	
Current tax	30	242
Total Equity n" Liability		1876

Notes to the Ali"s

Note 1: Accounting Policies: These financial statements have been prepared under the historical cost basis of accounting which is modified to accommodate revaluations of certain properties. They comply with the relevant International Financial Reporting Std (IFRS"s).

Property, Plant n" Equipment is shown in the A/c"s at cost or revalued amount – less accumulated depreciation. Depri" is based on the estimated useful life of the assets.

Inventory is shown in the A/C"s at the lower of cost n" net raisable value.

4.Goodwill

Investment in Mary n" Co.			
Shs. M		Shs. M	
Suspense	285	Investments	231
		Invest. Purchase	34
		Goodwill	
		- Amortised P/L	4
		Bal c/d (B/S)	16
	285		285

5.

Suspense A/C			
Shs. M		Shs. M	
Disc	50	Bal b/d	135
Share Prem.	70	Investment M & co	285
Disposal p & m	300		
	420		420

6. Accruals

	Shs.M
Light n" Heat	3
Debenture Interest	10
Audit fees	4
	17

Notes to the Accounts:

Note 2: Profit for the Period

The profit for the period is arrived at after charging the following expenses:

	Shs. M
Depreciation	38
Amoratsation	4
Employee benefits	274
Auditors fees	4

Note 3: Property, Plant n" Equipment

	Land & Bldgs.	Plant & Machinery	Total
	Shs. M	Shs. M	Shs. M
Cost 1 valuation			
Bal as at 1.1.X7	430	830	1260
Additions	-	-	-
Revaluation gain	370	-	370
Disposal		(350)	(350)
Bal as at 31st x 12 x 7	- 800	480	1280
Depreciation			
Bal as at 1.1.X7		222	242
Change for the year	20	36	38
Transfer to Rev. reserve	2	-	(22)
Eliminated on disposal	(22)	(76)	(76)
Bal as at 31.12.X7		182	182
	-		
Net Book Value as at 31.12			
Bal as at 31.12.20X7	-	480	1280
Bal as at 31.12.X7		(182)	(182)
N.B.V as at 31.12X7		298	1098
N.B.V as at 1.1X7	800	608	1018
	-		
	800		
	410		

Note 4: Dividends

During the year the Co. paid interim divided of 1.14 cents per share on the ordinary share n" a dividend of 70 c per share on the pref. shares. The directors are now proposing afinal dividend of 2c per share.

QUESTION TWO

Using Maximum Possible Loss Method

	Total Sh.	X Sh.	Y Sh.	Z Sh.	M Sh.
Capital	90,000	35,000	20,000	15,000	20,000
Leasehold redemption reserve	10,000	3,000	2,000	1,000	4,000
General reserve	25,000	7,500	5,000	2,500	10,000
	125,000	45,500	27,000	18,500	34,000
Cash available (W1)	(8,710)				
Maximum possible loss	(116,290)	(34,887)	(23,258)	(11,629)	(46,516)
		10,613	3,742	6,871	(12,516)
Reallocation of M"s loss		(5,268)	(3,576)	(2,682)	12,516
Cash distributed	8,710	4,355	166	4,189	-
Capital balance	116,290	41,145	26,834	14,311	34,000
Cash available	(61,250)				
	(55,040)	(16,512)	(11,008)	(5,504)	(22,016)
Cash distributed	61,250	24,633	15,826	8,307	11,984
Capital balance	55,040	16,512	11,008	5,504	22,016
Cash available	(35,055)				
Maximum possible loss	(19,985)	(5,995.5)	(3,997)	(1,988.5)	(7,994)
Cash distributed	35,055	10,516.5	7,011	3,505.5	14,022
Total distributed	140,065	39,504.5	23,003	16,501.5	26,006

(Please note that the Leasehold redemption fund may also be treated as a liability)

REALISATION A/C

	Sh."000"			Sh."000"
Land Buildings	42,500	Cashbook:		
Plant &Machinery	396,050	Jan: Stock		17,500
Goodwill	150,000	Debtors		14,660
Investments	10,000	Investments		12,100
Stocks	31,740	Feb: Goodwill		10,000
Debtors	19,205	Land & Buildings		35,000
Realization Expenses	2,000	Debtors		2,500
		Stock		13,750
		Mach: Plant & Machinery		32,800
		Debtors		1,755
		Capital: X	5,995.5	
		Y	3,997	
		Z	1,988.5	
	_____	M	7,994	19,985

BANK A/C

	Sh."000"			Sh."000"
Balance b/d	1,565	Creditors		34,615
Realization (Total)	140,065	Dissolution expenses		2,000
		Capital: X	395,045	
		Y	23,003	
		Z	16,501.5	
	_____	M	26,006	105,015
	141,630			141,630

CAPITAL A/C

	X Sh."000"	Y Sh."000"	Z Sh."000"	M Sh."000"		X Sh."000"	Y Sh."000"	Z Sh."000"	M Sh."000"
Realisation	395,045	23,003	16,501.5	26,006	Balance b/d	35,000	20,000	15,000	20,000
Realisation	5,995.5	3,997	1,998.5	799.4	LRR	3,000	2,000	1,000	4,000
					GR	7,500	5,000	2,500	10,000
	45,500	27,000	18,500	34,000		45,500	27,000	18,500	34,000

Cash available = Opening balance + Realised – creditors – Dissolution expenses

(ii) Surplus capital method

Statement of surplus capital

	X Sh.	Y Sh.	Z Sh.	M Sh.	TOTAL Sh.
Capitals	45,500	27,000	18,500	34,000	125,000
PSR	3	2	1	4	10
CAPITAL/unit of profit	15,167	13,500	18,500	8,500	N/A
Capitals in PSR	(25,500)	(17,000)	(8,500)	(34,000)	(85,000)
Surplus capital	20,000	10,000	10,000	-	40,000
Capitals PSR	20,000	10,000	10,000	-	40,000
Capital/Unit of profit	3	2	1	-	6
Capital	6,667	5,000	10,000	-	N/A
Surplus capital	15,000	10,000	5,000	-	30,000
	5,000	-	5,000	-	10,000
Capitals					
PSR	5,000	-	5,000	-	10,000
Capital/Unit of profit	3	-	1	-	4
Capitals in PSR	1,667	-	5,00	-	N/A
	(5,000)	-	(1,667)	-	(6,667)
	5,000	-	3,333	-	3,333

Statement of actual distribution

	X Sh.	Y Sh.	Z Sh.	M Sh.	TOTAL Sh.
January: Part realization	-	-	3,333	-	3,333
(8,710)	4,033	-	1,344	-	5,377
Balance	4,033	-	4,677	-	8,710
	967	-	323	-	1,290
February 4: Part	4,355	2,903	1,452	-	8,710
Balance	9,355	2,903	6,452	-	18,710
	10,645	7,097	3,548	-	21,290
February 22: Part	20,000	10,000	10,000	-	40,000
	8,988	5,992	2,996	11,984	29,960
Balance	28,988	15,992	12,996	11,984	69,960
	10,367	6,911	3,455	13,822	34,555
March 16: Part					
Excess	150	100	50	200	500
provision for	39,505	23,003	1,6501	26,006	105,015
Realisation					
expenses					
Total cash paid					

QUESTION THREE

a) Computation of closing inventory at Head Office

Selling Price to coustomers by Head Office is 100% and the G.P thereof is 12%. This means the cost of packed toys is 88% (100 – 12). If packaging materials is 10% of the cost of unpacked toys then , cost of unpacked toys and packaging materials will be determined as follows

Let x be cost of unpacked toys

Therefore packaging materials = 10% of x

x + 10% x = 88%

$x = \frac{88\%}{1.1}$

Therefore x = 80%

Therefore cost of unpacked toys is 80% and cost packaging materials is 8%

The various margins will now be computed as follows depending on whether it is sales to customers or goods sent tot eh branch.

	Sales to customers %	Goods sent to branch
Sales	100	94
G.P	12	6
Cost of packed toys	88	88
Cost of packing materials	(8)	(8)
Cost of unpacked toys	80	80

The closing inventory of the h/o is made up of

1. Unpacked toys and

2. Packaging materials and therefore each item needs to be determined separately

	Unpacked toys	Packaging materials	Total
	Sh.	Sh.	Sh.
Purchases	4,000,000	440,000	4,440,000
Less cos.	3,600,000	360,000	3,960,000
	400,000	80,000	480,000
Less: obsolete toys	(10,000)		(10,000)
Spoilt	-	(5,000)	(5,000)
Closing inventory	390,000	75,000	465,000

C.O.S	Sales to customers %	Goods sent to branch
Sales	2,800,000	1,598,000
G.P	(336,000)	(102,000)
Cost of packed toys	2,464,000	1,496,000
Cost of packing materials	(224,000)	(136,000)
Cost of unpacked toys	2,240,000	1,360,000

2. Closing inventory at the branch

The branch receives goods from the H/O at an invoice price of 94%. The Branch sells these goods to the customers at 100% realising a gross profit of 6% (100 – 94).

Any closing inventory at the branch will have a non-reliased profit of 6%(94 – 88). The unrealised profit on the total value of inventory at the branch (shown at the invoice of 94%) will be given as 6/94

The closing inventory at the branch will be given as follows (packed toy at invoice price)

	Sh.
Goods received from H/O	1,569,040
Less: C.O.S	1,410,000
	159,040
Less: stolen goods (94 x 13,000)	(12,220)
Closing inventory at invoice price	1,461,820
OPC I = 6/94 x 14520	9,371

The examiner has not stated whether the stolen goods at the branch are shown at invoice price to customer or invoice price to branch. We have therefore assured that the invoice price of Sh.13,000 is to customers and therefore to the branch it will be 946 of the amount.

Comuputation of C.O.G

	Sales to customers %	Ksh.
Sales to customers	100%	1,500,000
Less G.P	6	90,000
Cost of sales	94%	1,410,000

Unrealised profit or closing inventory 6/94 x 146,820 =

G.I.T

Good sent to the Branch (Head Office)	1,598,000
Goods sent to branch	1,569,040
Goods in transit at invoice price	28,960
Unrealised profit 6/94 x 28,960	1,849

Kamau

Trading Profit and Loss a/c For the year ended 31 March 1994

Head Office Branch combined

	Sh	Sh	Sh	Sh	Sh	Sh
Sales to customers		2,800,00		1,500,000		4,300,000
Goods sent to branch		1,598,000		-		-
		4,398,000		1,500,000		4,300,000
Cost of sales						
Purchases unpacked Toys	4,000,000		-		4,000,000	
Packing materials	440,000		-		440,000	
Goods received from head office			1,569,040		4,440,000	
	4,440,000		1,569,040		4,440,000	
Less: obsolete toys (3)	(10,000)		-		(10,000)	
Spoilt materials (3)	(5,000)		-		(5,000)	
Stolen goods	-		(12,220)		(11,440)	
	4,425,000		1,556,820		4,413,560	
Less: closing inventory						
Inventory at warehouse	(465,000)		(146,820)		(602,449)	
G.I.T	-	(3,960,000)	-	(1,410,000)	(27,111)	(3,784,000)
Gross profit		438,00	-	90,000		516,000
Expenses						
Depreciation of fixtures	20,000		-		20,000	
General and operating expenses	400,000		40,000		440,000	
Unrealised profit inv @ branch	9,371		-		-	
G.I.T.	1,249		-		-	
Obsolete toys	10,000		-		10,000	
Spoilt materials	5,000		-		5,000	
Goods shown	-		12,220		11,440	
Managers commission	-	446,220	3435	55,655 -	3435	48,9875
			-			
Net profit		(8,220)		3435		(26125)

Workings

Commission for the manager

	%	Shs.
Net profit before commission	110	37780
Commission	10	(3435)
Profit after commission	100	34345

Kamau
Balance Sheet as at 31 March 1994

Non current Assets	Sh	Sh	Sh	Sh	Sh	Sh
Fixtures	160,000		-		160,000	
Depreciation	(60,000)	140,000	-	-	(20,000)	140,000
Branch Curent A/c	315,385		-			
Less: UPC at Branch	(9,371)	306,014	-	-		
		446,014		-		140,000
Current Assets						
Inventory at warehouse	465,000		146,820		602,449	
G.I.T.	27,111		-		27,111	
A/c Receivables	280,000		150,000		430,000	
Cash: at bank	158,000		62,000		220,000	
In transit	50,000		-		50,000	
	980,111		358,820		1,329,560	
Current Liabilities						
A/C payables	(400,000)		(40,000)		(440,000)	
Managers Commission	-	580,111	(3,435)	315,385	3,435	886,125
		1,026,125		315,385		1,026,125
Capital		1,000,000		-		1,000,000
Net profit		26,125				26,125
Head office Current a/c				315,385		
		1,025,125		315,385		1,026,125

	%	Sh.
Net profit before commission	110	37,780 (90,000 – 40,000 + 2,220)
Commission 1%	10	3,435 (10/110 x 37,780)
Net profit after commission	100	34,345

In the books of H/o

Branch Current a/c

	£		£
Bal b/d	360,000	G.I.T.	28,960
Branch profit	34,345	G.I..T.	50,000
		Bal c/d	315,385
	394,345		394,345

In the books of the branch

Head Office Current a/c

	£		£
		Bal b/d.	281,040
Bal b/d	315,345	Branch profit	34,345
	315,345		315,345

QUESTION FOUR

Bigcom Investment Ltd

Consolidated Cash Flow Statement for the year ended 30th September 19 6 Cash Flows from Operating Activities

	Shs. „000"	Shs. „000"	Shs. „000"
Operating Profit for the year			16,866
Adjustments for: Depreciation		4,092	
Loss on Disposal of Plant		324	
Transfer to provision for repairs		558	
			4,974
			21,840
Adjustments for changes in working capital			
Increase in debtors		(1,782)	
Increase in stock		(2,682)	
Increase in creditors		(972)	
			(3,492)
			18,348
			510
			(9,216)
Extraordinary item			
Taxation paid			9,642
Investing Activities			
Purchase of fixed assets		(11,400)	
Proceeds from the sale of plant		504	
Dividend received from associates		216	(10,680)
Financing Activities			
Proceeds from issue of shares			
Debentures redeemed at premium			
Dividends paid:		2,544	
To members of Bigcom		(1,848)	
To minority shareholders			
	(1,740)		(1,356)
Net decrease in cash and cash equivalent	(312)	(2,052)	(2,394)
Cash: At 1 October 19 5			1,728
At 30 September 19 5			(666)

QUESTION FIVE

Re: Tantu(Deceased)

Statement of distribution as at 30th April 1993

Assets:	£	£
Car, Fiat		9,000
Car, Toyota		5,000
Boat		2,500
Furniture, jewellery etc		9,500
Farm		4,000
Beach plot		1,200
£150,000 6% Govt stock		120,000
Bank balances		68,800
		220,000

Specific legacies

To cousin Mwamba: Beach plot	(1,200)
	218,800

General Legacies

To Mwanda (grandson) through Maga"s estate	(10,000)
To Awa (Housekeeper)	(20,000)
To Charles (pastor of church)	(5,000)
To Weru (Neighbour)	(1,000)
	(36,000)
Gift of residue (To grandson Mwanda)	182,800

Notes:

- The gift "my car" fails due to uncertainty of subject – Tantu has two cars and itcannot be established as to which one he intended to bequest.
- The gift "my boat.." fails due to lapse – Pamba predeceased (i.e. died before) Tantu.
- In the gift of £.10,000 to each of his sons, one will fail due to lapse – both sons predeceased Tantu. However the exception can only apply to one of the sons; the other did not leave surviving issue – thus the gift will fail
- The gift of £2,000 to his brother in law will fail due to uncertainty of object. It is unknown as to which of the two brothers-in-law was referred to.
- The gift of £5,000 to the church was a gift for a purpose – this purpose had been achieved by means of a lifetime settlement. Thus the gift is said to have adeemed and will not pass.
- The gift of £2,000 to Akida (Shamba-boy) will not pass because the condition precedent was not satisfied.
- The gifts of £1,000 each to both Nyawawa and Langat will lapse.
- The gift of the outboard engine to the water games club will adeem since the outboard engine was sold. It is said to have changed substantially, i.e. it is not traceable.

(a) Rule of lapse

If a beneficiary pre-deceases a testator, a gift from the testator to the beneficiary does not pass on the death of the testator. There are two exceptions to this rule:

(i) When the beneficiary is issue of the testator; and even though predeceased the testator, he/she had left issue alive at the time of testator‟s death, the gift from the testator will pass to such issue.

(ii) The testator had felt a moral obligation towards the beneficiary due to events during their lifetime.

Abatement

When assets are insufficient to pay any class of legacies all legacies in that category/class shall be reduced to a fraction of the original amount. This is known as abatement – it enables all legatees to be partially satisfied with the few assets available.

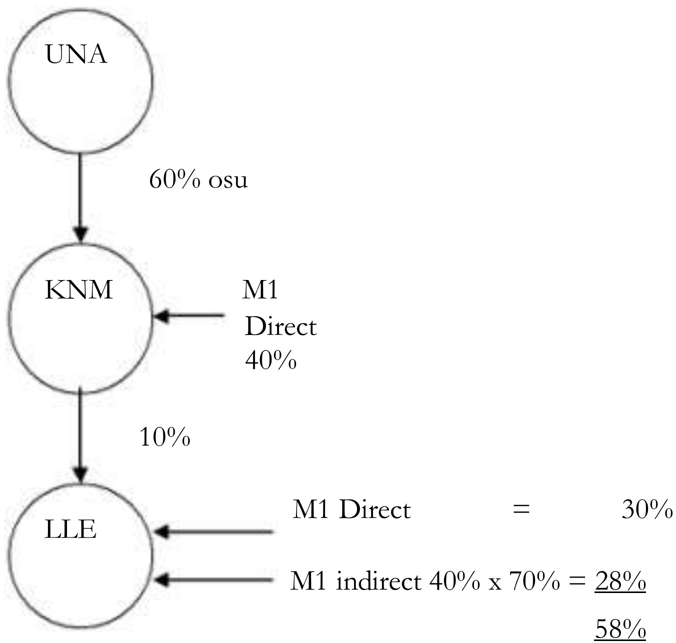
If assets are insufficient to pay specific legacies, these will abate rateably and no general or residuary bequests shall be paid.

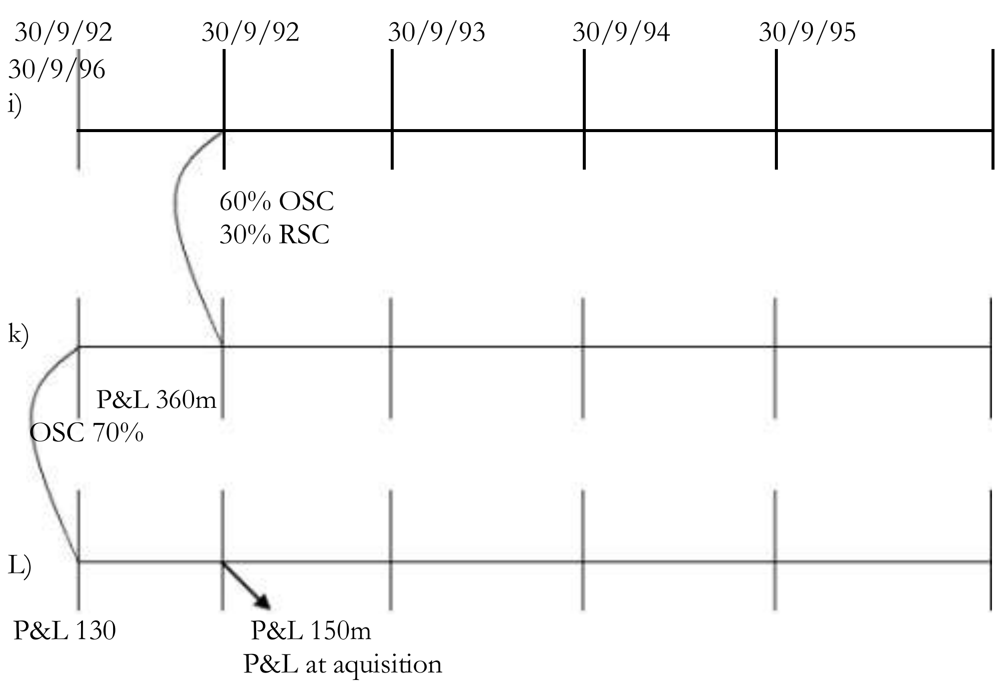
If assets are sufficient to pay specific legacies but insufficient to pay general legacies, the general legacies shall abate rateably and no residuary bequest shall be fulfilled.

PAPER 5

QUESTION ONE

Simple Group Structure





Effective control		
Holding company	K	L
	%	%
Subsidiary : Direct	60	-
Indirect (60% x 10%)	-	42
	60	42
Minority Interest		
Direct	40	30
Indirect	-	28
	40	58

Cost of control

	Sh		Sh.
Invest in L	600	K: OSC 60% x 500	300
		PSC 30% x 80	24
		At Aquis P&L 60% x 360	216
Invest in K 60% x 330	198	L: OSC 42% x 250	105
		P&L 42% x 150	63
		Goodwill	
		Amortised	
		90/5 x 4	72
		Bal c/d	18
	798		798

Group retained profits

	Shs.		Shs.
C.O.C. P&L at aquis.	216	U	1058
MI P&L in K	184	K	460
C.O.C. P&L at aquis. in L 42% x 150	63	L	300
MI share in L 58% x 300	174	Dividends Receivable	
Group inventory	6	In K (60% x 100)	60
C.O.C goodwill amortised	72	In L (60% x 70% x 30%)	21
		Preference cash in xxxx 30% x 8	2.4
Bal c/d	1,186.4		
	1,901.4		1,901.4

Minority Interest

	Shs.		Shs.
		OSC 40% x 500	200
		PSC 70% x 80	56
		P&L (40% x 460)	184
40% x 350	132	L Ltd OSC (58% x 250)	145
Group inventory	4	P&L 58% x 360	174
		Proposed dividends (40% x 70% x 50)	14
Bal c/d	637		
	773		773

Group Inventory

	Sh „m"		Sh. „m"
U	484	Group retained profit	6,000
K	320	Minority interest	4,000
L	270		
		Bal c/d	1,064
	1,074		1,074

Group A/cs Receivable

	Shs. „m"		Shs. „m"
U	180	Due from UNA	
L	150	Group a/c payable	18
L	90	Group cash in transit	8
		Due from IC	
		Group a/c payable	6
		Bal c/d	388
	420		420

Group a/c payable

	Shs.		Shs.
Due to L Group a/c receivable	18	U	170
Due from K group a/c receivable	6	K	120
		L	90
Bal c/d	356		
	380		380

Bank Overdraft

	Shs.		Shs.
Groups P&L	2.4	U	60
Group a/c receivable	8		
Bal c/d	49.6		
	60		60

Group proposed dividends

	Shs.		Shs.
Group Retained profit	60	U	100
Group P&L	21	K	100
Min	14	L	50
Bal c/d	155		
	250		250

3. K Ltd makes a sale to UNA and LLE Ltd

Selling price $33\frac{1}{3}$	40,000
100	30,000
Group profits 33%	10,000

Therefore Dr. Group Retained profits 60% x 10,000 = 6,000
Dr. Minority interest 40% x 10,000 = 4,000
Cr. Group inventory 10,000

4. The dividends proposed by the subsidiary co. belongs to 3 groups:

   a) The holding company indirectly 60% x 70% x 50 = 21m
   b) The indirect minority interest 40% x 70% x 50 = 14m
   c) The direct minority interest 30% x 50 = 15m

   The share that belongs to the holding company is passed to the group retained profits and the share that belongs to the indirect minority interest is transferred to the MI"s a/c. This is because when the subsidiary company pays the dividends to the subsidiary company y then the profits of the subsidiary company will increase. This profits belong to both the holding company indirect minority interest and therefore

Dr : Group proposed Dividend	21 + 14
Cr: Group retained	21
Cr. Minority Interest	14

Balance sheet as at 30 September 1996

Non current assets	Sh „m"	Sh „m"
Property plant and equipment		1,444
Intangible goodwill		18
		1,462
Current Assets		
Inventory	1,064	
Accounts receivable	388	
Cash at bank	120	1,572
Total assets		3,034
Equity and Liabilities		
Ordinary share capital		500
Retained profits		1186.4
Shareholders funds		1686.4
Minority interest		637
		2323.4
Current liabilities		
Bank overdraft	49.6	
Account payable	356	
Taxation	150	
Proposed dividends	155	710.6
		3034

NB: The revaluations carried out relating to investment in subsidiary are ignored becauseIAS 22 requires goodwill arising or consolidation to be based on the purchase consideration (actual cost of investment and the net assets acquired therefore for the purpose of the group the revaluation reserve is ignored and the investment is stated at cost.

QUESTION TWO

Since one year has elapsed since the balance sheet that has been provided, a balance sheet as at August 1997 will aid in arriving at the required accounts which should be drawn up at 31 August 1997). The balance sheet will be after recording profits and policy proceeds after the death of Ndiu:

Balance Sheet after the death of Ndiu

	Shs	Shs		Shs	Shs
Capitals			Life assurance policy		87,000
K: 120000+40500	160,500		Bank		110,400
N: 120000+40500	160,500		Sundry net assets		323,400
R: 60000+27000	87,000		(Missing figure)		
		408,000			
Current a/cs:					
K:600+41850-37800	4,650				
N: 300+41850-40500	1,650				
R: 300+27900-23700	4,500				
		10,800			
Life assurance fund		87,000			
8% Loan		15,000			
		520,800			520,800

Life Assurance Policy

	Sh„000"		Sh.„000"
Bal b/d	78,000	Life assurance fund	45,000
Cash book	9,000	Realisation	42,000
	87,000		87,000

Realisation a/c

	Sh„000"		Sh.„000"
Net Assets	323,400	Cash Book	372,000
Life Policy	42,000	Capitals: reassigned	
Cash Book: Legal expsenses	960	Policies	45,000
Capitals: Profit			
K 18990			
N 18990			
R 12660			
	50,640		
	417,000		417,000

Life Assurance Fund

	Sh„000"		Sh.„000"
Life Assurance Policy	45,000	Bal b/d	78,000
Capitals	42,000	P & L	9,000
	87,000		87,000

Capital a/cs

	K	N	R		K	N	R
	Shs	Shs	Shs		Shs	Shs	Shs
Realisation a/c				Bal b/d	120,000	120,000	60,000
Life policies	27,000	-	18,000	CB: **a)**	40,500	40,500	27,000
				Life :**b)**	15,750	15,750	
10,500							
Cash Book: final					18,990	18,990	12,660
Settlement	172,890	196,890	96,660	a/cs	4,650	1,650	4,500
	199,890	196,890			199,890	196,890	114,660

a) **CB: Life policy**
b) **Life assurance**
c) **Realisation profit**

Current a/cs							
	K	N	R		K	N	R
	Shs	Shs	Shs		Shs	Shs	Shs
Drawings	37,800	40,500	23,700	Bal b/d	600	300	300
Bal to capitals	4,650	1,650	4,500	Profit share	41,850	41,850	27,900
	42,450	42,150	28,200		42,450	42,150	28,200

8% Loan a/c

	Sh„000"		Sh.„000"
Cash Book	15,000	Bal b/d	15,000

Cash Book

	Sh„000"		Sh.„000"
Bal b/d	110,400	Realisation expenses	960
Realisation	372,000	8% Loan a/c	15,000
		Capitals: K	172,890
		N	196,890
		R	96,660
	482,400		482,400

Net Assets

	Sh„000"		Sh.„000"
Bal b/d (1st Sept)	316,200	Drawings	102,000
Profit	111,600	Life Policy premium	9,000
Life assurance fund	9,000	Bal c/d – Bank	110,400
Life Policy proceeds	108,000	Others	323,400
	544,800		544,800
Bal b/d: Others	323400	Realisation	323400

QUESTION THREE

San Francisco
Trial balance as at 31 December 19X7

	$ Dr	$ Cr	Rate	$ Dr	$ Cr
Leasehold premises	40,000		2.2	18,182	
Amortisation of lease		8,000	2.2		5,455
Amortisation for the year: (B/S)		4,000			
(P/L)	4,000		1.8	2,222	
Delivery vans, at cost	10,000		2.2	4,545	
Provision for depreciation on vans		5,000	2.2		3,409
Depreciaiton for the year: (B/S)		2,500			
(P/L)	2,500		1.8	1,389	
Opening stock	12,460		1.8	6,922	
Debtors	6,293		1.6	3,933	
Sales		116,308	1.8		64,616
Purchases	21,800		1.8	12,111	
Goods from London	38,620		Actual	20,700	
Administration expenses	3,142		1.8	2,1	
Administration expenses accrued: (P/L)	760				
(B/S)		760	1.6		475
Salaries and wages	23,500		1.8	13,056	
London current account (W)		49,520	Actual		24,900
Directors" remuneration	5,120		1.6	3,200	
Selling and delivery costs	8,940		1.8	4,967	
Cash at bank	13,789		1.6	8,674	
Creditors		4,926	1.6		3,079
Closing stock: local (P/L)		6,060	1.8		3,367
(B/S)	6,060		1.6	3,788	
London (P/L)		9,180	1.7		5,400
(B/S)	9,180		1.7	5,400	
				111,257	110,701
Profit on exchange					556
	206,254	206,254		111,257	111,257

b) Trading and profit and loss accounts for the year ended 31 December 19X7

	London	San Francisco	Combined
	£	£	£
Sales	78,318	64,616	142,934
Transfers to San Francisco	21,600		
	99,918	64,616	142,934
Opening stocks	8,620	6,922	15,042
Purchases	70,066	12,111	82,177
Transfers from London		20,700	
	78,686	39,733	97,219
Closing stocks	12,470	8,767	21,087
	66,216	30,966	76,132
Gross profit	£ 33,702	£33,650	£66,802
Administration expenses	3,186	2,168	5,354
Salaries and wages	9,420	13,056	22,476
Directors" remuneration	4,800	3,200	8,000
Selling and delivery costs	5,485	4,967	10,452
Amortisation of lease	1,000	2,222	3,222
Depreciation on vans	3,000	1,389	4,389
Provision for unrealized profits	550		
	27,441	27,002	53,893
Net profit	6,261	6,648	12,909
Profit on exchange		556	556
	£6,261	£7,204	£13,465

Balance Sheet as at 31 December 19X7

	£	£	£
Fixed assets			
Leasehold premises		33,182	
Less: Amortisation		13,455	19,727
Motor vehicles		16,545	
Less: Depreciation		12,409	4,136
			23,863
Current assets			
Stocks at cost		21,508	
Debtors		7,802	
Cash at bank		15,597	
		44,907	
Current liabilities			
Creditors	13,830		
Accrued charges	1,275	15,105	29,802
			£53,665
Representing:			
Share capital			20,000
Profit and loss account			33,665
			£53,665

Workings:

San Francisco current account

	£		£
Balance b/d	22,600	Goods in transit account	900
Salaries and wages	3,200	Balance c/d	24,900
	£25,800		£25,800
Balance b/d	24,900		
Profit and loss account	7,204		
	32,104		

London current account

	$		$
Balance c/d	49,520	Balance b/d	44,400
		Directors remuneration (at $1.60 to the £)	5,120
	$49,520		$49,520

3. Provision for unrealized profit

		£
Balance brought forward		500
Provision for the year:		
On stocks at San Francisco:		
$9,180 @ 1.70 = £5,400 (x $\frac{20}{120}$) =	900	
On goods in transit: £900 (x $\frac{20}{120}$) =	150	1,050
Increase in provision		£550

Closing stocks for combined trading account

	£	£
London		12,470
San Francisco: from London	5,400	
Less: provsion	900	
	4,500	
Local	3,367	7,867
Goods in transit	900	
Less: provision	150	750
		£21,087

Closing stocks for combined balance sheet:

London		12,470
San Francisco: from London	5,400	
Less: provision	900	
	4,500	
Local	3,788	8,288
Goods in transit	900	
Less: provision	150	750
		£21,508

QUESTION FOUR

RE: Bahati mbaya

Receiver"s Receipts and Payments Account

	Shs.		Shs.
Proceeds from the sale Of "sundry assets"	2,360,000	Receivership expenses	12,000
		Receiver"s remuneration	16,000
			28,000
		Preferential creditors:	
		Tax paid	160,000
			188,000
		Secured creditors:	
		11% Debentures paid	1,600,000
		Surplus transferred to liquidator	572000
	2,360,000		2,360,000

ii) **RE: Bahati Mbaya**

Liquidator"s fund Statement of account

	Shs.		Shs.
Surplus from Receiver	572,000	Costs of liquidation	24,000
Proceeds from building sale	720,000	Liquidator"s remuneration	10,000
Less: paid to mortgage holder	(640,000)		
	80,000	Unsecured creditors:	
Proceeds from other asset sales	1,160,000	Trade creditors paid	440,000
Guarantee received from		Balance of overdraft	24,000
Directors	176,000	*Return-*	176,000
Part o/draft paid off	(176,000)	*of guarantee amts to director*	640,000
	-	Paid to shareholders	479,200
		Ordinary shareholders	658,800
			1,138,000
	1,812,000		1,812,000

NB: The payments to shareholders" schedule is as follows:

	Issued	Paid up	Callable	Gross Repayment	Net Repayment
	Shs	Shs	Shs	Shs	Shs
Prefshares	800,000	800,000		479,200	479,200
Osc	1,200,000	1,140,000	60,000	718,800	658,800
	2,000,000	1,940,000		1,198,000	1,128,000
Available cash				1,138,000	
Total repayable				1,198,000	

Gross repayments – Preference shareholders = 800000/2000000 X 1198000

- Ordinary shareholders = 1200000/2000000 X1198000

Net repayments:

Preference shareholders = Gross repayments – 0

Ordinary shareholders = Gross repayments – 60000

- If the directors of a company are of the opinion that the company should be liquidated voluntarily, then they would call an extraordinary general meeting of the company to pass a special resolution to have the company liquidated. If the company is able to pay all its creditors in full, then a "members voluntary liquidation" can proceed in this case, at the latest practicable date. They must also make out a declaration of solvency which has been sworn before a Commissioner of Oaths and delivered to the Registrar of Companies within 30 days preceding the date of meeting.

If the directors are of the opinion that all creditors may not be paid in full, they must call a meeting of creditors after the meeting of members (to pass the resolution to wind up the company) in order to appoint a liquidator. This is called a creditors" voluntary liquidation.

QUESTION FIVE

(b) A trust may be constituted in the following ways:

By declaration:
The settler (person holding on to property) makes a declaration stating that henceforth he holds property in trust for specified persons or for persons to be decided at his discretion (discretionary trust).

Eg, upon the death of Mr P, Mr Q (his brother) decided to transfer some of his (Mr Q"s) property to a trust whose beneficiaries are X and Y – children of Mr P; Mr Q making himself the trustee.

By transfer:
The settler (owner of property) transfers property to trustees for them to hold, maintain and manage such property on behalf of beneficiaries. The transfer may be accompanied by terms and conditions on which the trust property is to be held and managed.

Eg, upon the death of Mr P, Mr Q (his brother) decides to transfer some of his (Mr Q"s) property to Mrs P on trust for the benefit of X and Y – children of Mr and Mrs P. The transfer to Mrs P may include directives on how the property should be used to benefit X and Y; and on the transfer of such property absolutely to X and Y (say when they turn 18 years or 21 years).

By Will:
Trusts may be created by means of testamentary gifts, i.e a testator may leave his property to be held by trustees on behalf of named beneficiaries. Eg, a person may have the following stipulation in his will: "I leave my house in Buru Buru to my wife; upon her death it should be absolutely transferred to and owned by my sister….". The person who is to manage the house may also be named. In this case, the named person will be the trustee who will then manage the property on behalf of the beneficiary (wife). Upon the wife"s death, the trustee should transfer the property to the sister.

By operation of the law:
Here a number of situations may arise:

→ Where a person dies intestate and operation of the law decrees the children to be his beneficiaries, and such beneficiaries are infants, the law provides that the property be held on trust until the beneficiaries attain majority age.

Resulting trusts:

These exist where equity regards the property which is held by the trustee as belonging to the person who transferred it to the trustee. This may arise in 4 situations:

(i) purchase of property where two people have jointly advanced the money but the property is registered in one person"s name – the registered ownerholds part of the property in trust.

(ii) Where a person purchases land and has it conveyed to the name of another (or has it conveyed into the joint names of himself and another) the second person holds the property in trust for the benefit of the person supplying the funds.

(iii) Failure to exhaust the beneficial interest – if the settler fails to dispose of all trust property through his directives, the undisposed part is held by the trustees on resulting trust for the settler or his estate.

(i) Where a private express trust fails for uncertainty of objects (beneficiaries) or for non-compliance with statutory formalities, there will be a resulting trust in favour of the settler.

Constructive trusts

These are trusts imposed by equity regardless of the intention of the owner of the property; it always arises by operation of the law. The concept has been applied in the following:-

(i) A trustee must not permit his interests to conflict with his duties – and a trustee may not profit from his trust – if he does, such profit does not belong to him; he also holds this on trust.

(ii) If a person who is not a trustee obtains information/help from a trustee, which enables him to make a profit, such a profit does not belong to that person; he holds this on trust.

(iii) If a person receives trust property with the knowledge that it is trust property received in breach of trust, he does not own such property; he holds it as a trustee.

(iv) A person who does not actually receive trust property but assists a trustee to fraudulently dispose of this is as liable as the trustee.

(b)(i) Odhiambo cannot claim the house as his own. He holds on to it on trust; the beneficiary being Otieno. This is a resulting trust arising from operation of the law – where one person purchases property in the name of another, the second person holds such property on trust.

However, where the person supplying the money is under an obligation to maintain the other (eg father and son or husband and wife) the "presumption of advancement" displaces the "presumption of resulting trust". Thus Odhiambo would be able to claim the house as his own.

(ii) There are two possible courses of action for the ambassador.

- First, under trust law, 3 certainties must be fulfilled for a trust to be properly constituted.

(2) Certainty of words (there must be an intention to create the trust)

(3) Certainty of subject (the property subject to the purported trust must be clearly identified)
(4) Certainty of object (the beneficiaries must be clearly identified)

Where there is uncertainty regarding the beneficiaries, there is a resulting trust in favour of the settler (Boyce Vs Boyce). If the Utopian Ambassador relied on this, the money belongs to him.

- Secondly he may use the law of intestacy and distribute the money should he so wish. He will do so as follows:

(1) The last-born in the Kimani family is deemed to have died last and is therefore the beneficiary of the fund.
(2) If he/she had left behind a valid will, the money would belong to the residuary legatee as per that will.
(3) If he/she did not leave behind a valid will the money will be distributed depending upon whether he/she left behind a spouse or children or both (who may not have been in the house at the time the disaster struck.)
(4) Even though the question did not specify so, it can be assumed that the last-born was an infant – thus did not have a spouse or children.

Therefore the ambassador would distribute the money as follows:

- Family members (father, mother, brothers and sisters) who may have been away at the time; if none
- Half brothers and half sisters and children of half brothers and half sisters; and if none.
- Relatives in the nearest degree of consanguinity up to and including the sixth; and if none
- The consolidated fund of the government.

NB:

"Kimani and his members of the family perished…" has been interpreted to mean "Kimani, his wife, his sons and his daughters perished….."