PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE:

COURSE TITLE: ADVANCED ACCOUNTING IV

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question ONE and ANY other three Questions.
- Show all your workings
- Read all questions carefully before attempting.

Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Explain the following terms:
   i) Royalties (2marks)
   ii) Goodwill (2marks)

b) Using a relevant example, distinguish between:
   i) A branch and a subsidiary (3marks)
   ii) Mergers and acquisitions (3marks)

QUESTION TWO

The lessee of a mine is to pay **shs1** for each ton of ore extracted. The minimum rent is to be shs.400 per annum. Any payments for short working are recoupable only in the two years following that in which they occurred. The following table shows the effect of extraction figures:

Year	Calculation of Royalty	Minimum rent	Payment	Short workings		
				Current	Written off	Recoverable
1	310	400	400	90	-	-
2	560	400	470	-	-	90
3	280	400	400	120	-	-
4	440	400	400	-	-	40
5	450	400	400	-	30	50

From the above table open the following ledger accounts:

a. Royalty account (2 marks)

b. Land lord account (4 marks)

c. Short workings account (4marks)

QUESTION THREE

Indiana Traders, James opened a branch at Kisumu on 1-7-12017. The goods were sent by the head office to the branch invoiced at selling price of the branch which was 125% of the cost price of the head office.

The following are the particulars relating to the transactions of Kisumu Branch :

	Shs
Goods sent to branch (at cost to head office)	280,000
Sales- Cash	124,000
Sales –Credit	175,000

Cash collected from debtors	156,000
Discount allowed	4,000
Spoiled cloth in bales written off at invoice price.	500
Cash sent to branch for:	
Wages	3.000
Freight	11,000
Other expenses including go down rent	6,000
Stock on June 30th 2018	55,500

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Required:

a) Draw journal accounts under the Stock and Debtors System (3marks)

b) Prepare profit or loss for the Kisumu Branch for the year ended June 30,2018 (7marks)

QUESTION FOUR

a) Explain the two types of business combinations (4marks)
b) Citing relevant examples, discuss any three reasons for business combinations (6marks)

QUESTION FIVE

a) Explain any two reasons for determining goodwill in acquisitions (4marks)
b) Explain the relevance of royalties in business (6marks)

QUESTION SIX

Alpha Co purchased 1,450,000 ordinary shares in Beta Co in 20X0, when the general reserve of Beta stood at sh400,000 and there were no retained earnings. The statements of financial position of the two companies as at 31 December 20X4 are set out below.

	Alpha	Beta
	sh'000	sh'000
Assets		
Non current Property, plant and equipment	8,868	1,787
Investment in Beta at cost	1,450	–
	10,318	1,787
Current assets		
Inventories	1,983	1,425
Receivables	1,462	1,307
Cash	25	16
	3,470	2,748
Total assets	13,788	4,535

Equity and liabilities		
Equity Share		
capital (50c ordinary shares)	5,500	1,000
General reserve	1,200	800
Retained earnings	485	100
Total equity	7,185	1,900
Non-current liabilities		
Borrowings 10%	4,000	
Borrowings 15%	–	500
Total non-current liabilities	4,000	500
Current liabilities		
Bank overdraft	1,176	840
Trade payables	887	1,077
Taxation	540	218
Total current liabilities	2,603	2,135
Total liabilities	6,603	2,635
Total equity and liabilities	13,788	4,535

At the end of the reporting period the current account of Alpha with Beta was agreed at sh23,000 owed by Beta. This account is included in the appropriate receivable and trade payable balances shown above. There has been no impairment of goodwill since the date of acquisition. It is the group's policy to value the non-controlling interest at its proportionate share of the fair value of the subsidiary's net assets.

Required

Prepare a consolidated statement of financial position for the Alpha Beta Group.