



OFFICE OF THE DEPUTY VICE CHANCELLOR  
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

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**UNIVERSITY EXAMINATIONS**

**2023/2024 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS**

**COURSE CODE: EDB 411**  
**COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING II**

**DATE: 22<sup>ND</sup> APRIL 2024      TIME: 2.00 P.M TO 5.00 P.M**

**INSTRUCTION TO CANDIDATES**

- SEE INSIDE

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**MAIN EXAM**

**EDB 411; ADVANCED FINANCIAL ACCOUNTING II**

**STREAM: BBM**

**DURATION: 3 Hours**

**INSTRUCTIONS TO CANDIDATES**

- i. Answer Question **ONE** which is **(COMPULSORY)** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

**QUESTION ONE (30 MARKS)**

- a) Certain actions by a bankrupt individual may prompt his/her creditors to file for bankruptcy petition against him/her. Briefly explain five such actions (10 Marks)
- b) Briefly explain ways through which a company can re-organize its capital through capital reduction as provided for in the company's Act (6 Marks)
- c) Briefly describe the Bankruptcy process for an insolvent individual with respect to Insolvency Act (2015) (7 Marks)
- d) Administrator of an insolvent company is charged with various responsibilities. Discuss the implication of appointment of an administrator on an insolvent company. (7 Marks)

**QUESTION TWO (20 MARKS)**

Keli commenced business eight years ago with a capital of sh 4 million. His profits for six years has been sh 1900,000. For the last two years, he has not prepared proper accounts. His drawings average sh 250,000 p.a

On 31<sup>st</sup> December 2023, an order of adjudication was made against him when his position was as follows;

- i. Freehold buildings cost sh 5.5 million estimated to realize sh 4 million
- ii. Plant and Machinery cost sh 2.5 million estimated to realize sh 1 million
- iii. Furniture cost sh 1 million, estimated to realize sh 600,000
- iv. Inventory sh 1.6 million, estimated to realize sh 1.35 million
- v. Cash at bank sh 150,000
- vi. Accounts receivable: sh 750,000 estimated to realize sh 500,000
- vii. Preferential creditors 300,000
- viii. Mortgage on building sh 2.8 million
- ix. Creditors (partly secured by life policy estimated at sh 800,000) sh 2.5 million
- x. Unsecured creditors sh 4 million
- xi. Personal furniture sh 200,000
- xii. Personal debts sh 100,000

Required:

- a) Statement of affairs (10 Marks)
- b) Deficiency account as at 31<sup>st</sup> December 2023 (10 Marks)

**QUESTION THREE (20 MARKS)**

Gauge Ltd started operation in 2019. For the last three years, it has incurred losses and the management is now considering alternatives of liquidating or capital reconstruction. Balance sheet as at 31<sup>st</sup> December 2023 is as follows;

	Sh 000	sh 000
Goodwill		29000
Premises		25,000
Motor vehicles		17000
Inventory		19200
Accounts receivable		6700
Prepayments		600
Accumulated losses		<u>18700</u>
		<b><u>116 200</u></b>
Ordinary share capital of sh 20 each	45000	
Cumulative preference shares sh 20 each	<u>30000</u>	
		75,000
9% debenture		18000
Bank overdraft		8500
Accounts payable		<u>14700</u>
		<b><u>116200</u></b>

Additional information:

1. Premises estimated to realize sh 28 million while motor vehicles can realize sh 12 million.
2. Accounts receivable can realize sh 5.7 million
3. Dividend to preference shareholders has not been paid for the last 3 years. Preference shareholders have priority claim over ordinary shareholders in the event of liquidation
4. Proposed reconstruction of the company should result in profits of sh 3.6 million and sh 5.4 million in the year 2016 and 2017 respectively. Tax losses are equal to the accumulated losses in the statement of financial position. Tax rate is 30%
5. Debenture holders have a fixed charge on the premises
6. Additional cost of sh 4 million would be incurred if the business is wound up.
7. Debenture holders are prepared to agree on a reconstruction scheme on the following conditions: interest rate be raised from 9% to 12%p.a and they are given a fixed charge on the company's premises.
8. The bank is prepared to agree to a reconstruction scheme provided that its debt is secured by a floating charge over assets, thus improving its position in relation to other creditors of the company. It would be willing to provide financing over the medium term.
9. Trade creditors are likely to agree to a reduction of their claims and are willing to supply the reconstructed company and continue to grant credit on normal terms.
10. Preference shareholders would be willing to forego their dividend arrears and accept ordinary share capital.

Required:

- i) Distribution schedule on liquidation (10 Marks)
- ii) Suggest a suitable capital reduction scheme which would be acceptable to all creditors and shareholders (5 Marks)
- iii) Capita reduction account for the company (5 Marks)

**QUESTION FOUR (20 MARKS)**

a) Uwezo ltd went into voluntary liquidation on 31<sup>st</sup> march 2023. The following balance sheet was extracted as at that date:

<b>Assets:</b>	
Freehold buildings	480,000
Plant and machinery	655,000
Goodwill	400,000
Patent	100,000
Inventory	568,000
Accounts receivable	648,200
Retained earnings	<u>986,800</u>

<b>Share capital</b>	
195,000 ordinary shares sh 10 each	1950,000
<b>Accounts payable:</b>	
Preferential creditors	242,000
Partly secured creditors by building	553,100
Unsecured creditors	997,900
Bank overdraft	120,000

- The liquidator realized the assets as follows;  
Freehold building sh 350,000; accounts receivable sh 610,000; plant & machinery sh 510,000; inventory sh 390,000
- The liquidation expenses amounted to sh 10,000
- Liquidator's remuneration had been agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors.

Required:

- Calculate liquidator's remuneration (3 Marks)
- Liquidator's final statement of account (9 Marks)
- Discuss four advantages of internal reconstruction over external reconstruction of an insolvent company (8 Marks)

**QUESTION FIVE (20 MARKS)**

- Briefly explain three circumstances in which a parent company need not present consolidated financial statements in accordance with International Accounting Standard (IAS ) 27 Consolidated and Separate financial Statements (6 Marks)
- Agano Ltd. acquired 72% of the ordinary shares of Dando Ltd. on 1 July 2023 for Sh.250 million. On 31 August 2023, the statements of financial position of the two companies were as follows:

Non-current assets:	AGANO LTD MILLION	DANDO LTD MILLION
Property, plant and equipment	223	270
Investment in Dando Ltd	250	
	473	270
<b>Current assets:</b>		
Inventory	50	62
Trade receivables	60	48

Cash and cash equivalents	19	14
	129	124
<b>Total assets</b>	<b>602</b>	<b>394</b>
<b>Equity and liabilities:</b>		
Ordinary shares of Sh. 1 each	300	200
Share premium	40	10
Retained earnings brought forward	150	40
Profit for the year	60	24
	550	274
<b>Non-current liabilities:</b>		
3% debentures	40	100
<b>Current liabilities</b>		
Trade payables	12	20
<b>Total equity and liabilities</b>	<b>602</b>	<b>394</b>

**Additional Information**

1. On 31 July 2023, Dando Ltd. sold an item of property, plant and equipment to Agano Ltd. realising a profit on sale of Sh.20 million. Agano Ltd. was depreciating this item over its remaining useful life of 4 years. It is the group's policy to charge a full year's depreciation in the year of purchase and none in the year of disposal.
2. On 29 August 2023, Agano Ltd. sold goods to Dando Ltd. for Sh.26 million. Agano Ltd. sells goods at a mark-up of 30%. Dando Ltd. had sold a quarter of these goods by 31 August 2023.
3. As at 31 August 2019, the trade receivables of Agano Ltd. included Sh.12 million due from Dando Ltd. while the trade payables of Dando Ltd. included Sh.7 million due to Agano Ltd.
4. Goodwill was impaired by 25% as at 31 August 2023.
5. Agano Ltd. and Dando Ltd. had declared dividends of Sh.15 million and Sh.10 million respectively before 31 August 2019, but had not adjusted for them.
6. Goodwill attributable to the non-controlling interest was valued at Sh.9.4 million.

Required;

Consolidated statement of financial position/or Agano group as at 31 August 2023

(14 Marks)