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MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CBF 321: FINANCIAL REPORTING AND ANALYSIS

Date: DECEMBER 2018	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) P Co has owned 75% of the shares of S Co since the incorporation of that company. During the year to 31 December 20X2, S Co sold goods costing $16,000 to P Co at a price of $20,000 and these goods were still unsold by P Co at the end of the year. Draft statements of financial position of each company at 31 December 20X2 were:

	P Co $	S Co $
Assets		
Non-current assets		
Property, plant and equipment	125,000	120,000
Investment: 75,000 shares in S Co at cost	75,000	
	200,000	120,000
Current assets		
Inventories	50,000	48,000
Trade receivables	20,000	16,000
	70,000	64,000
Total assets	270,000	184,000
Equity and liabilities		
Equity Ordinary shares of $1 each fully paid	80,000	100,000
Retained earnings	150,000	60,000
	230,000	160,000
Current liabilities	40,000	24,000
Total equity and liabilities	270,000	184,000

Required;

ISO 9001:2008 Certified by the Kenya Bureau of Standards

Prepare the consolidated statement of financial position of P Co at 31 December 20X2. The fair value of the NCI at acquisition was $25,000 **(15 marks)**

b) P Co owns 60% of S Co and on 1 January 20X1 S Co sells plant costing $10,000 to P Co for $12,500. The companies make up accounts to 31 December 20X1 and the balances on their retained earnings at that date are:

P Co after charging depreciation of 10% on plant	$27,000
S Co including profit on sale of plant	$18,000

Required;
Show the working for consolidated retained earnings **(7 marks)**

c) Discuss the statement that accounting standards are unnecessary for the purpose of regulating financial statements **(8 marks)**

Q2. a) Discuss the five enhancing qualitative characteristics of financial information according to the Conceptual Framework? **(10 marks)**

b) Discuss the following concepts;
- i) Going concern **(3 marks)**
- ii) Accruals concept **(3 marks)**

c) Why are preference dividends considered as a liability in the financial statements of a business? **(4 marks)**

Q3. a) Watson acquired a property on 1 January 20X1 for $250,000, being $200,000 for the building and $50,000 for the land. The building was judged to have a useful life of 50 years. On 1 January 20X6 the property was independently valued which resulted in an increase of $100,000 to the carrying amount of the building and $50,000 to the carrying amount of the land. The useful life is unchanged. What is the depreciation charge for the year ended 31 December 20X6? **(7 marks)**

b) Discuss the advantages of a cash flow statement **(5 marks)**

c) A company set up a gas exploration site on 1 January 20X1 which will operate for five years. At the end of five years the site will need to be dismantled and the landscape restored. The amount required for dismantling and restoration, discounted at the company's cost of capital of 8%, is $1.2m and a provision is set up for this amount. What is the total amount charged to profit or loss for the year ended 31 December 20X2 in respect of these dismantling and restoration costs? **(8 marks)**

Q4. a) P Co acquired 60% of the $100,000 equity of S Co on 1 April 20X5. The statements of profit or loss of the two companies for the year ended 31 December 20X5 are set out below.

	P Co	S Co	S Co(9/12)
	$	$	$
Sales revenue	170,000	80,000	60,000
Cost of sales	(65,000)	(36,000)	(27,000)
Gross profit	105,000	44,000	33,000
Other income – dividend received S Co	3,600		
Administrative expenses	(43,000)	(12,000)	(9,000)
Profit before tax	65,600	32,000	24,000
Income tax expense	(23,000)	(8,000)	(6,000)
Profit for the year	42,600	24,000	18,000
Note;			
Dividends (paid 31 December)	12,000	6,000	
Profit retained	30,600	18,000	
Retained earnings brought forward	81,000	40,000	
Retained earnings carried forward	111,600	58,000	

Required;

Prepare the consolidated statement of profit or loss and the retained earnings and non-controlling interest extracts from the statement of changes in equity **(15 marks)**

b) On 30 September 20X2, Boffin Co made an issue at full market price of 1,000,000 ordinary shares. The company's accounting year runs from 1 January to 31 December. Relevant information for 2016 and 2017 is as follows.

	2017	2016
Shares in issue as at 31 December	9,000,000	8,000,000
Profits after tax and preference dividend	$3,300,000	$3,280,000

Required

Calculate the EPS for 2017 and the corresponding figure for 2016. **(5 marks)**

END