LAIKIPIA UNIVERSITY COLLEGE

BCOM 212 ACCOUNTING FOR EQUITIES

Attempt TWO questions in section A and ONE question in section B.

SECTION A

1. On october 1, 2006, Plateau LTD advertised the floatation of 3,000,000 ordinary shares of Ksh. 10 each. The terms of payment were as follows.

* Ksh. 3 per share application fee.
* Ksh. 5 per share allotment fee (Including the premium).
* Ksh. 2 per share on first call.
* Ksh. 2 per share on second and final call.

All the cash was recieved except for Ms Patel (who applied and was alloted 10,000 shares) who did not pay for the second call. Consequently, the company BoD passed a resolution to forfeit her shares. Plateau LTD reissued the shares forfeited by Ms Patel at a discount of Ksh. 2 per share.

**REQUIRED:**

1. Journal entries in the books of Plateau LTD to record the above transactions. (10 mks)
2. Ledger accounts in the books of Plateau LTD to record the above transactions (13.5 mks)
3. The following trial balance was prepared by Mtangwe LTD as at 30 December 2009.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Ksh ‘000 | Ksh ‘000 |
| Ordinary share capital of Ksh 10 each |  |  | 20,000 |
| 8% redeemable preference shares |  |  | 12,000 |
| 6% debentures |  |  | 10,000 |
| Revaluation reserve |  |  | 3,400 |
| Sales |  |  | 323,920 |
| Inventory (As at January 1, 2009) |  | 12400 |  |
| Purchases |  | 147200 |  |
| Distribution costs |  | 22,300 |  |
| Administrative expenses |  | 34,440 |  |
| Interest paid on debentures |  | 600 |  |
| Interim dividends paid | Ordinary shares | 2,000 |  |
|  | Preference shares | 480 |  |
| Investment income |  |  | 1,500 |
| Leasehold building |  | 56,250 |  |
| Plant and equipment at cost |  | 55,000 |  |
| Furniture and fittings at cost |  | 35,000 |  |
| Investments |  | 34,500 |  |
| Accumulated deppreciation | Leasehold buldings |  | 18,000 |
|  | Plant and equipment |  | 12,800 |
|  | Furniture and fittings |  | 9,600 |
| Accounts recievable |  | 35,700 |  |
| Bank overdraft |  |  | 1,680 |
| Accounts payable |  |  | 17,770 |
| Deffered tax |  |  | 5,200 |
|  |  |  |  |
|  |  | **435,870** | **435,870** |

Additional information:

* The company’s inventory taken on January 2, 2010 was valued at Ksh. 16 million.
* The policy of the company in relation to deppreciation of its fixed assets is as follows:

ASSET RATE

Leasehold building 4% per annum on straight line basis

Plant and equipment 20% per annum on straight line basis

Furniture and fittings 40% per annum on reducing balance basis

* Deppreciation is classified as a cost of sales item except for deppreciation on furniture and fittings which is classified as an administrative expense.
* A provision for corporation tax of Ksh. 23.4 million is required for the year.
* The deffered tax liability is to be increased by Ksh. 2.2 million.
* The directors proposed to pay a final ordinary dividend of 10%.

REQUIRED

Prepare the following accounts in accordance with the international financial reporting standards

Income statement for the year ended 31 December 2009. (8 marks)

Statement of changes in equity for the year ended 31 December 2009. (7.5 marks)

Balance sheet for the year ended 31 December 2009. (8 marks)

1. Shown below are the recently issued (summarised) financial statements of Harbin, a listed company, for the year ended 30 September 2009

Balance sheet

Ksh’ 000

Non-current assets

Property, plant and equipment 200,000

Goodwill 10,000

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210,000

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Current assets

Inventory 5,000

Trade receivables 11,000

Bank nil

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16,000

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**Total assets 226,000**

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Equity and liabilities

Ordinary shares of Ksh. 1 each 100,000

Retained earnings (14,000)

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86,000

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Non-current liabilities

8% loan notes 100,000

Current liabilities

Bank overdraft 17,000

Trade payables 23,000

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40,000

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**Total equity and liabilities 226,000**

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The management of Harbin LTD decided to undertake a capital reorganization. The following were the steps agreed upon.

* The property, plant and equipment to be written down to Ksh. 50 million.
* Goodwill is to be written off from the books.
* All current assets are to be written off.
* Liabilities (Both current and non- current) are to be settled by issuing ordinary shares.
* The company is to raise more capital by issuing 100 million ordinary shares of Ksh. 1 each.

Required:

1. Ledger accounts in the books of Harbin LTD. (15 marks).
2. A balance sheet for harbin LTD immadiately after the capital reorganization. (8.5 marks).

**SECTION B**

1. An important requirement of the IASB’s Framework for the Preparation and Presentation of Financial Statements (Framework) is that in order to be reliable, an entity’s financial statements should represent faithfully the transactions and events that it has undertaken and observe consistency in the presentation of financial statements.

**REQUIRED:**

List SIX components that comprise a complete set of financial statements (6 marks).

Explain what is meant by faithful representation and how it enhances reliability. (6 marks)

Discuss what is meant by consistency of presentation, and conditions under which the classification and representation of items in financial statements may be changed. (8 marks).

Discuss briefly the position of international financial reporting standards in regards to offsetting of assets/ liabilities and income/ expenses. (3.5 marks)

1. i Write short notes on the following:
   1. Cumulative Vs non- cumulative preffered stock (4 marks).
   2. Convertible Vs non- convertible preffered stock (4 marks).
   3. Participating vs non- participating preffered stock (4 marks)

ii. State and briefly discuss 2 types of debentures (4 marks).

iii. Discuss the accounting treatment in regards to:

* changes in accounting policies (4 marks)
* Changes in accounting estimates (3.5 marks).