

Additional information:

1. The property, plant and equipment in the partnership were being depreciated as follows:

Asset	Rate per annum	Basis
Building	2%	Straight line
Plant and equipment	12½%	Reducing balance
Motor vehicles	20%	Straight line
Furniture and fixtures	10%	Straight line

Depreciation for the year ended 30 June 2019 had not been provided for.

2. The partners were entitled to an interest on their fixed capital balances at the rate of 10% per annum. No salaries were paid to the partners.

3. The tangible non-current assets were to be transferred to the new company at their fair values as follows:

	Sh. "000"
Property	57,000
Plant and equipment	16,000
Motor vehicles	9,500
Furniture and fixtures	3,500

4. The current assets and the liabilities were taken over by the new company at their book values.

5. The purchase consideration amounted to Sh.110 million and was settled by the new company through the issue of ordinary shares of Sh.10 each to the partners in satisfaction of the amounts due to them upon conversion.

Required:

- (i) Realisation account as at 30 June 2019. (6 marks)
- (ii) Partners' capital accounts as at 30 June 2019. (4 marks)
- (iii) Opening statement of financial position as at 1 July 2019 for Chapete Limited. (4 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance has been extracted from the accounting records of Skytex Limited as at 30 September 2019:

	Sh. "000"	Sh. "000"
6% convertible loan notes		25,000
Ordinary shares (Sh.10 each)		61,000
Retained earnings (1 October 2018)		177,000
Revenue		216,000
Cost of sales	108,500	
Distribution costs	23,600	
Administrative expenses	44,000	
Inventory (30 September 2019)	18,750	
Trade and other receivables	27,300	
Trade and other payables		23,800
Finance costs	6,200	
Investment income		600
Current tax		650
Deferred tax		13,900
Property at cost (Land: Sh.60 million)	170,000	
Accumulated depreciation (1 October 2018)		22,000
Plant and equipment at cost	56,000	
Accumulated depreciation (1 October 2018)		18,000
Bank balance	7,600	
Investment property	120,000	
Suspense account		24,000
	<u>581,950</u>	<u>581,950</u>

Additional information:

1. Skytex Limited entered into a contract with a customer where performance obligation is satisfied over time. The total contract price is Sh.45 million, with total expected contract costs of Sh.25 million.

Progress towards completion was measured at 50% on 30 September 2018 and at 80% on 30 September 2019. The correct entries were made in the year ended 30 September 2018, but no entries have been made for the year ended 30 September 2019.

2. On 1 April 2019, Skytex Limited was notified that an ex-employee had initiated court proceedings against them for unfair termination. Legal advice was that there was an 80% chance that Skytex Limited would lose the case and would be required to pay an estimated amount of Sh.5.06 million in damages on 1 April 2020.

Based on this advice, Skytex Limited recorded a provision of Sh.4 million on 1 April 2019 and has made no further adjustments.

The provision was recorded in administrative expenses and in trade and other payables.

Skytex Limited's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091.

3. The company's policy on depreciation is to charge depreciation on building on straight line basis to a nil residual value at the rate of 2% per annum.

The plant and equipment should be depreciated on reducing balance basis at the rate of 12.5% per annum. All depreciation should be charged to cost of sales.

4. The company issued Sh.25 million 6% convertible loan notes on 1 October 2018. Interest is payable annually in arrears. The loan notes can be converted into one share for every Sh.2 of the loan note on 30 September 2020. Similar loan notes, without conversion rights, incur interest at the rate of 8%.

Skytex Limited recorded the full amount in liabilities and has recorded the annual interest payment made on 30 September 2019 of Sh.1.5 million in finance costs.

Relevant discount factors are as follows:

Present value of Sh.1 in:	6%	8%
1 year	0.943	0.926
2 years	0.890	0.857

5. The balance of current tax in the trial balance relates to an under/overprovision from the prior period. The tax estimate for the year ended 30 September 2019 is Sh.10.5 million. In addition, there has been a decrease in taxable temporary differences of Sh.10 million during the year. Skytex Limited pays tax at the rate of 30% and movements in deferred tax are to be taken to the statement of profit or loss.
6. On 1 February 2019, Skytex Limited issued 1.5 million ordinary shares at their full market price of Sh.16 per share. The proceeds were credited to a suspense account.
7. The investment property in the trial balance is stated at fair value as at 30 September 2018. The fair value as at 30 September 2019 amounted to Sh.121.5 million.

Required:

Prepare the following financial statements in a suitable format for publication:

- (a) A statement of profit or loss for the year ended 30 September 2019. (8 marks)
- (b) A statement of changes in equity for the year ended 30 September 2019. (4 marks)
- (c) A statement of financial position as at 30 September 2019. (8 marks)

Note: All workings should be done to the nearest Sh."000".

(Total: 20 marks)