

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

MONDAY: 21 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

### QUESTION ONE

The following trial balance was extracted from the books of accounts of Furaha Ltd. as at 30 June 2016:

	Sh."000"	Sh."000"
Freehold property (cost)	28,000	
Machinery (cost)	18,000	
Furniture (cost)	6,000	
Accumulated depreciation (1 July 2015):		
Machinery		5,400
Furniture		2,160
Purchases	68,000	
Sales		91,000
Inventory (1 July 2015)	26,400	
Trade receivables	14,640	
Trade payables		7,200
Discounts allowed	1,350	
Discounts received		1,100
Selling and distribution expenses	2,750	
Administrative expenses	5,300	
Debenture interest	160	
Allowance for doubtful debts (1 July 2015)		610
8% debentures		2,000
Ordinary share capital		30,000
10% preference share capital		20,000
Share premium		5,000
Retained earnings (1 July 2015)		12,330
Bank balance and cash in hand	2,100	
Interim dividend paid:		
Preference	800	
Ordinary	1,200	
Insurance	2,100	
	<u>176,800</u>	<u>176,800</u>

### Additional information:

- At the end of the financial year, it was not possible to carry out a stock take for inventory valuation. However, the normal profit margin is 20%.
- On 30 June 2016, administrative costs included a prepayment of Sh.500,000.
- Insurance was paid on 1 July 2015 and is to cover a period of three years in equal instalments from that date.
- Debtors amounting to Sh.640,000 had been unable to pay by 30 June 2016. This amount should be written off.
- Allowance for doubtful debts is maintained at 5% of the trade receivables at the end of each year.
- Depreciation is provided as follows per annum:

Asset	Rate
Machinery	10% on straight line basis.
Furniture	20% on reducing balance basis.
- The directors have proposed the following:
  - A 6% dividend on ordinary shares.
  - A final dividend on preference shares.

**Required:**

- (a) Income statement for the year ended 30 June 2016. (12 marks)
- (b) Statement of financial position as at 30 June 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Give two reasons why a manufacturing entity might need to determine manufacturing profit. (4 marks)
- (b) The books of account of NDI Ltd. for the year ended 30 June 2016 showed the balance at bank as recorded in the cash book as Sh.1,254,800. This balance differed with the actual bank balance.

The books of account were investigated, and the following information was revealed:

1. Cheque number 113571 dated 12 May 2016 for Sh.324,000 in favour of Miriam Ltd. was correctly recorded in the bank statement, but recorded in the cash book as Sh.234,000.
2. Bank commission charged of Sh.24,500 and bank interest of Sh.18,100 were not recorded in the cash book.
3. A cheque for Sh.46,500 received from Bado Ltd. and recorded in the cash book was returned by the bank with the stamp "insufficient funds".
4. A cheque for Sh.65,000 for payment of electricity had been entered twice in the cash book.
5. Cash received on 30 June 2016 amounting to Sh.352,500 had been recorded in the cash book but was not yet banked.
6. A standing order payment for rent of Sh.98,000 had not been recorded in the cash book.
7. Cheques paid by NDI Ltd. amounting to Sh.84,500 were unrepresented to the bank as at 30 June 2016.
8. Jamii Ltd., a debtor, cleared their debt of Sh.285,000 on 28 June 2016 through a direct deposit in the bank. This had not been recorded in the cash book.

**Required:**

- (i) The bank statement balance as at 30 June 2016. (10 marks)
- (ii) The updated cash book as at 30 June 2016. (4 marks)
- (iii) Bank reconciliation statement. (2 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight five roles of the accountant general in your country. (5 marks)
- (b) The following are the financial statements of Tahidi Limited:

**Statement of financial position as at 31 October 2016 and 31 October 2015:**

	2016 Sh."million"	2015 Sh."million"
<b>Non-current assets:</b>		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	<u>-</u>	<u>25</u>
	<u>630</u>	<u>530</u>
<b>Current assets:</b>		
Inventories	150	102
Receivables	390	315
Short term investments	50	-
Cash in hand	<u>2</u>	<u>1</u>
	<u>592</u>	<u>418</u>
Total assets	<u>1,222</u>	<u>948</u>
<b>Current liabilities:</b>		
Trade payables	127	119
Bank overdraft	85	98
Corporation tax	120	110
Proposed dividends	<u>100</u>	<u>80</u>
	<u>432</u>	<u>407</u>
Net assets	<u>790</u>	<u>541</u>

	Sh. "million"	Sh. "million"
<b>Financed by:</b>		
<b>Capital and reserves</b>		
Share capital	200	150
Share premium	160	150
Revaluation reserve	100	91
Revenue reserve	<u>160</u>	<u>100</u>
	620	491
<b>Non-current liabilities:</b>		
Long-term loans	<u>170</u>	<u>50</u>
	<u>790</u>	<u>541</u>

**Income statement for the year ended 31 October 2016:**

	Sh. "million"
Sales	2,553
Cost of sales	<u>1,814</u>
Gross profit	739
Interest income	<u>25</u>
	764
Less: Distribution expenses	(125)
Administrative expenses	<u>(264)</u>
Operating profit	375
Less: Interest paid	<u>(75)</u>
Profit on ordinary activities before taxation	300
Taxation	<u>140</u>
Profit after tax	160
Dividends	<u>(100)</u>
Retained profit for the year	<u>60</u>

**Additional information:**

- 5,000,000 ordinary shares of Sh.10 each were issued during the year at a price of Sh.12 per share.
- Fixtures and fittings which had an original cost of Sh.85 million and a net book value of Sh.45 million were sold for Sh.32 million during the year.
- The proceeds of the sale of long-term investments amounted to Sh.30 million.
- The following information relates to tangible non-current assets:

	31 October 2016 Sh. "million"	31 October 2015 Sh. "million"
Cost	720	595
Accumulated depreciation	<u>340</u>	<u>290</u>
Net book value	<u>380</u>	<u>305</u>

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of cash flows" for the year ended 31 October 2016. (15 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following is the receipts and payments account of Tegemeo Club for the year ended 30 September 2016:

<b>Receipts and payments account</b>			
<b>Receipts</b>	<b>Sh. "000"</b>	<b>Payments</b>	<b>Sh. "000"</b>
Balance brought forward - Bank	1,994	Bar purchases	8,258
- Cash	42	Salaries and wages	1,482
Joining fees	112	Electricity expenses	220
Subscriptions	824	Rent and rates	460
Bar sales	10,400	Stationery expenses	150
Receipts from golf tournament	620	Golf tournament expenses	228
Interest on loan stock	70	Mowing machine	152
		General expenses	204
		Purchase of loan stock	2,000
		Ground expenses	112
		Balance carried forward - Bank	724
		- Cash	<u>72</u>
	<u>14,062</u>		<u>14,062</u>

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**Additional information:**

1. The bar inventory on 30 September 2016 was valued at Sh.852,000 which was Sh.58,000 higher than the value of inventory on 1 October 2016.
2. The following balances were available:

	30 September 2015	30 September 2016
	Sh.	Sh.
Subscriptions in arrears	120,000	70,000
Rent in arrears	40,000	70,000
Electricity due	28,000	24,000
Rates prepaid	38,000	42,000

3. Fixtures and fittings were valued at Sh.1,008,000 on 30 September 2015.
4. The amount paid for the new mowing machine purchased on 1 January 2016 represents the net amount after taking into account the trade-in allowance of Sh.28,000 on the old mowing machine.
5. Machines and equipment were valued at Sh.400,000 on 30 September 2015. This includes the old mowing machine valued at Sh.40,000.
6. Depreciation is charged on a pro-rata basis for all machines and equipment purchased during the year. No depreciation is charged in the year of disposal.
7. Depreciation is to be provided as follows:

Asset	Rate per annum
Fixtures and fittings	12.5% on cost
Machines and equipment	20% on cost

**Required:**

- (a) Bar income statement for the year ended 30 September 2016. (4 marks)
- (b) Income and expenditure account for the year ended 30 September 2016. (8 marks)
- (c) Statement of financial position as at 30 September 2016. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Distinguish between partners' capital accounts and partners' current accounts. (4 marks)
- (b) Many countries have adopted and implemented accrual accounting as per the International Public Sector Accounting Standards (IPSAS).  
  
Outline four principles of accrual accounting. (4 marks)
- (c) Explain four elements of manufacturing costs. (4 marks)
- (d) Discuss four advantages of computerised accounting systems. (8 marks)

**(Total: 20 marks)**

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