KASNEB

CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

PILOT PAPER

September 2015. **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

(a) Enumerate four features of public sector accounting that distinguish it from private sector accounting. (4 marks)

(b) Abdi and Badi were partners in Abai Enterprises trading as general merchants and sharing profits and losses in the ratio 2:1 after charging interest on capital at 10% per annum.

On 30 November 2014 Coy was admitted as a partner and from that day, profits and losses were to be shared in the ratio 2:2:1 for Abdi, Badi and Coy respectively.

The following trial balance was extracted from the partnership books as at 31 August 2015:

		Sh. "000"	Sh. "000"
Land and building		22,500	
Motor vehicles		24,600	
Furniture and fittings		8,700	
Accumulated depreciation:	Motor vehicles		5,670
	Furniture and fittings		1,455
Capital	Abdi		9,750
	Badi		8,400
Cash introduced by Coy			13,500
Purchases		64,800	
Sales			120,000
Bank balance		3,690	
Accounts receivable		9,660	
Rent expense		1,260	
Inventory		14,400	
Salaries		22,440	
Selling and distribution expenses		7,860	
Partners current accounts:	Abdi		7,460
	Badi	2,000	
Trade payables			15,675
		181,910	181,910

Additional information:

1. Other than receipt of cash from Coy, no entries have been made to record the admission. On 30 November 2014, land and buildings were revalued at Sh. 30 million while goodwill which was to be written off was estimated at Sh.9 million.
2. After the admission of Coy, partners agreed that interest on capital would subsequently be paid at 20% per annum.
3. Salaries include the following partners drawings:

Abdi	Sh.3,870,000
Badi	Sh.3,060,000
Coy	Sh.1,030,000

4. Depreciation on motor vehicles is to be provided at 20% p.a on a reducing balance basis while depreciation on furniture and fittings is to be provided at 20% p.a on cost.
5. Sales for the period after admission of Coy were 50% more than sales for the period before admission in the year to 31 August 2015. Selling and distribution expenses varied with sales while other expenses accrued evenly over the year.

6. Allowance for doubtful debts was Sh.350,000 on 30 November 2014 and Sh.500,000 on 31 August 2015.
7. Inventory on 31 August 2015 was valued at Sh.15 million.

Required:

(i) Income statement for the year ended 31 August 2015. (10 marks)

(ii) Statement of financial position as at 31 August 2015. (6 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain two liquidity ratios. (4 marks)

(b) The following trial balance was extracted from the books of Vixen Ltd. as at 31 May 2015:

	Sh."000"	Sh."000"
Ordinary share capital - Sh.10 each		22,500
Share premium		1,200
10% debentures		1,500
General reserve		1,500
Revenue reserves		2,430
10% preference shares		12,000
Goodwill	3,750	
Inventory	4,185	
Purchases and sales	33,270	56,955
Discounts	510	753
Salaries	4,275	
Rates and insurance	2,553	
Office expenses	2,208	
Directors remuneration	750	
Interim dividends paid: Preference	480	
Ordinary	2,250	
Financial assets at fair value	12,000	
Trade receivables and payables	3,600	3,015
Allowance for doubtful debts		420
Bank	1,917	
Buildings	25,500	
Furniture and fittings	2,250	
Motor vehicles	12,000	
Provision for depreciation: Furniture and fittings		450
Motor vehicles		4,650
Debenture interest	75	
Investment income		4,200
	111,573	111,573

1. The cost and net realisable value of inventory as at 31 May 2015 was Sh.4,200,000 and Sh.3,950,000 respectively.
2. Invoices received amounting to Sh.500,000 had erroneously been treated as invoices issued.
3. Depreciation is to be provided as follows:

Asset	**Rate per annum**
Furniture and fittings	10% reducing balance basis
Motor vehicles	20% straight line basis

4. Allowance for doubtful debts to be adjusted to Sh.300,000.
5. Irrecoverable debts amounting to Sh.50,000 to be written off.
6. Insurance amounting to Sh.600,000 had been paid to cater for a period of one year ending 31 August 2015.
7. Provisions for accrued debenture interest and preference dividends are to be made.
8. Corporate tax for the year is estimated at Sh.1,750,000.
9. A final dividend of 10% was declared.

Required:

(i) Income statement for the year ended 31 May 2015. (10 marks)

(ii) Statement of financial position as at 31 May 2015. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the two fundamental qualitative characteristics of good financial information. (4 marks)

(b) Enumerate four errors that are not detected by a trial balance. (4 marks)

(c) The following balances of non-current assets were extracted from the financial records of Kazantan Ltd. as at 1 June 2014:

	Cost	Accumulated Depreciation
	Sh.	Sh.
Land	6,243,000	-
Buildings	6,580,500	657,000
Furniture and fixtures	2,025,000	675,000
Plant and equipment	15,120,000	10,039,000
Motor vehicles	7,930,000	3,307,500

The following information relates to the year ended 31 May 2015:

1. An item of plant was disposed off during the year ended 31 May 2015 for Sh.1,070,000. The item had cost Sh.3,140,000 and had accumulated depreciation of Sh.2,200,000.
2. Land and buildings were professionally revalued on 1 June 2014 at Sh.7 million and Sh.6.5 million respectively.
3. A delivery van purchased in March 2013 for Sh.2 million was stolen during the year. The insurer accepted to compensate the company by paying 70% of the original cost.
4. During the period furniture and fixtures acquired amounted to Sh.3 million while a vehicle that had cost Sh.1.2 million and on which depreciation of Sh.400,000 had been charged was traded in for a new vehicle costing Sh.3 million and the company was required to pay Sh.2.4 million in cash settlement of the trade in balance.
5. The depreciation policy of Kazantan Ltd. was as follows:

Asset	Basis of depreciation	Rate per annum %
Land	-	-
Buildings	Straight line	2.5%
Furniture and fixtures	Straight line	10%
Plant and equipment	Reducing balance	12.5%
Motor vehicles	Reducing balance	20%

A full years depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

Property, plant and equipment movement schedule for the year ended 31 May 2015. (12 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain three differences between an income and expenditure account and a receipts and payment account in accounting for a not-for-profit organisation. (6 marks)

(b) Joy Nitan owns a manufacturing plant under the name Jotan Manufacturers. The following trial balance was extracted from the books of Jotan Manufacturers as at 30 June 2015:

	Sh."million"	Sh."million"
Capital		1,250
10% bank loan		1,100
Land	1,475	
Factory building	1,450	
Factory plant	200	
Office expenses	18	
Electricity	20	
Factory fuel	25	
Factory salaries	18	
Delivery vans	150	
Inventory: Raw materials	125	
Work in progress	75	
Finished goods	300	

	Sh."million"	Sh."million"
Sales		3,554
Sales returns	50	
Purchases of raw materials	1,500	
Insurance	9	
Water	40	
General salaries	200	
Allowance for irrecoverable debts		30
Trade receivables and payables	600	820
Bank	400	
Cash	60	
Computers	200	
Provision for depreciation: Factory building		200
Factory plant		40
Delivery van		60
Computers		50
Irrecoverable debts	10	
Loan interest	110	
Discount received		36
Investments	120	
Investment income		15
	7,155	7,155

Additional information:

1. Inventory as at 30 June 2015 was valued as follows:

	Sh."million"
Raw materials	200
Work in progress	100
Finished goods	250

2. Allowance for irrecoverable debts is to be adjusted to Sh.25 million
3. Prepaid insurance amounted to Sh.3 million as at 30 June 2015.
4. Accrued general salaries amounted to Sh.16 million.
5. Expenses to be apportioned between factory office and selling expenses as follows:

	Factory Expenses Sh."million"	Administration expenses Sh."million"	Selling expenses Sh."million"
Electricity	80%	20%	
General salaries	20%	60%	20%
Insurance	20%	60%	20%
Water	80%	20%	
Depreciation: Factory buildings	100%		
Factory plant	100%		
Delivery van			100%
Computers	50%	50%	

6. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Factory buildings	2%
Factory plant	10%
Delivery van	20%
Computers	20%

Required:

Manufacturing account and income statement for the year ended 30 June 2015. (14 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain two categories of financial assets. (4 marks)

(b) Ally Ltd. has provided the following financial information for the month ended 31 August 2015:

	Sh."million"
Receivables debit balance as at 1 August 2015	1,200
Payables credit balance as at 1 August 2015	800

	Sh."million"
Credit purchases	2,840
Allowance for irrecoverable debts (30 June 2009)	60
Credit sales	3,630
Returns inwards	100
Discounts received	9
Returns outwards	40
Interest charged to credit customers on overdue accounts	20
Discounts allowed	6
Receipt from credit customers	2,904
Payment to creditors	2,207
Irrecoverable debts written off	12
Customers cheques dishonoured	50
Payables ledger credits transferred to receivables	240

Additional information:

1. An amount of Sh.200,000 previously written off was received in the month of August 2015.
2. Claims by Ally Ltd. for price reduction in the month of August due to defective goods was approved by suppliers amounting to Sh.150,000.
3. An invoice issued of Sh.480,000 was omitted from the relevant day book.

Required:

(i) Sales ledger control account. **(8 marks)**

(ii) Purchases ledger control account. **(8 marks)**

(Total: 20 marks)

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