



ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 19 August 2024. Morning Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Which one of the following is **NOT** a main accounting issue when a person is introduced as a partner in an existing partnership?
 - A. Recognition, valuation and treatment of goodwill
 - B. Valuation of closing inventory in the books of account
 - C. Revaluation of assets and liabilities and the treatment of gains and losses arising from the respective revaluations
 - D. The ascertainment of the amounts at which the existing partner's capital accounts will be shown in the books (2 marks)

2. The going concern concept assumes that:
 - A. The business can continue in operational existence for the foreseeable future
 - B. The business cannot continue in operational existence for the foreseeable future
 - C. The business will continue to be profitable in the foreseeable future
 - D. Sales of the business will continue increasing in the foreseeable future (2 marks)

3. Which one of the following is **TRUE** about the total of the discount allowed column in the three-column cashbook?
 - A. It is entered on credit side of the discount received account
 - B. It is entered on the debit side of the discount received account
 - C. It is closed to the credit side of the discount allowed account
 - D. It is closed to the debit side of the discount allowed account (2 marks)

4. Which one of the following is **NOT** an accounting profession code of conduct?
 - A. Objectivity
 - B. Professional behaviour
 - C. Independence
 - D. Courtesy (2 marks)

5. In the trial balance, the balance for accumulated depreciation is _____.
 - A. shown as a credit item
 - B. not shown as part of depreciation
 - C. shown as a debit item
 - D. sometimes shown as a credit, sometimes as a debit (2 marks)

6. George Mima had opening capital of Sh.1,000,000 and closing capital of Sh. 450,000. During the period, George Mima introduced capital of Sh.400,000 and withdrew Sh.800,000 for his own use. What was his profit or loss for the period?
 - A. Sh.950,000 loss
 - B. Sh.150,000 loss
 - C. Sh.750,000 profit
 - D. Sh.1,050,000 profit (2 marks)

7. Working capital is a term meaning:
- A. The amount of capital invested by the proprietor
 - B. The excess of the current assets over the current liabilities
 - C. The capital less current assets and non-current assets
 - D. The excess of non-current assets over current assets (2 marks)
8. Manufacturing account is prepared to calculate:
- A. The production costs paid in the period
 - B. The total cost of goods produced in the period
 - C. The production cost of goods completed in the period
 - D. The gross profit on goods sold in the period (2 marks)
9. As per International Accounting Standard (IAS) 2, inventory is valued at:
- A. Cost of production
 - B. Net realisable value
 - C. Lower of cost and net realisable value
 - D. Higher of cost and net realisable value (2 marks)
10. Assets received as donation or grant shall be accounted for at:
- A. Zero price
 - B. Historical cost
 - C. Fair market value
 - D. Net present value (2 marks)
11. What is the primary aim of commitment accounting?
- A. To maximise revenue
 - B. To control expenses
 - C. To track assets
 - D. To manage investments (2 marks)
12. The process of allocating the cost of intangible assets over their useful life is known as:
- A. Depreciation
 - B. Amortisation
 - C. Impairment
 - D. Accrual (2 marks)
13. What does prime cost include?
- A. Raw materials cost and factory overheads cost
 - B. Direct labour cost and factory overheads cost
 - C. Raw materials cost and direct labour costs
 - D. Factory overheads cost and total labour costs (2 marks)
14. Which one of the following statements **BEST** describe indirect costs?
- A. Costs which are not controlled directly by a manager
 - B. Costs which cannot be directly associated with a product or service
 - C. Costs which can be directly associated with a product or service
 - D. Costs that are always manufacturing overhead costs (2 marks)
15. What does the term “financial assets” refer to in accounting?
- A. Assets with physical value and can be readily converted into cash
 - B. Assets based on a contractual right or ownership claim
 - C. Assets used for administrative purposes
 - D. Assets that can be quickly and easily converted to cash (2 marks)
16. Define the term “non-financial liabilities” as used in accounting.
- A. Liabilities related to financial transactions
 - B. Liabilities not directly related to financial claims
 - C. Liabilities with a physical value
 - D. Liabilities based on contractual obligations (2 marks)

17. Which of the following is **NOT** a source of funds used to finance capital projects by a government unit?
- Budget approved by members of parliament
 - Money set aside for recurrent expenditure
 - Money collected by county government
 - Government treasury bonds issued to the public
- (2 marks)
18. The amount of share capital of the company and number of shares taken by the shareholders from the commencement of the company up to the date at which the balance sheet is drawn is referred as _____.
- authorised share capital
 - issued share capital
 - called up share capital
 - paid up share capital
- (2 marks)

Use the following information to answer question 19 to question 21:

The following information relate to Upendo Social Club for the year ended 31 March:

	2023	2024
	Sh.	Sh.
Accrued subscription	1,150,000	2,350,000
Subscription in advance	780,000	1,450,000
Bar payables	1,874,500	1,040,000
Bar inventory	600,000	260,000

The receipts and payments account for the year ended 31 March 2024 were as follows:

Receipts and payments account			
Receipts	Sh.	Payments	Sh.
Balance brought forward	200,000	Bar purchases	2,780,000
Membership subscription	4,560,000	Purchase of machinery	1,500,000
Bar sales	3,695,000	Bar wages	675,000
		Payment for computers	2,500,000
		Balance carried forward	<u>1,000,000</u>
	<u>8,455,000</u>		<u>8,455,000</u>

19. Calculate the subscription income.
- Sh.2,690,000
 - Sh.5,090,000
 - Sh.4,560,000
 - Sh.4,030,000
- (2 marks)
20. Calculate the bar purchases.
- Sh.1,945,500
 - Sh.2,780,000
 - Sh.3,120,000
 - Sh.2,880,000
- (2 marks)
21. Determine the bar profits for the period ended 31 March 2024.
- Sh.2,285,500
 - Sh.1,610,500
 - Sh.734,500
 - Sh.1,409,500
- (2 marks)

Use the following information to answer questions 22 and 23:

The following information was extracted from the books of account of XML Traders for the year ended 30 June 2024:

	Sh.
Sales: Cash	7,200,000
Credit	19,400,000
Non-current Asset:	17,400,000
Current Assets:	
Stock	2,800,000
Accounts receivable	1,700,000
Prepayments	50,000
Bank and cash	1,290,000

Assume 365 days in a year.

22. Calculate non-current asset turnover ratio.
- A. 0.413 times
 - B. 0.654 times
 - C. 1.115 times
 - D. 1.529 times
- (2 marks)
23. Calculate the average collection period.
- A. 23 days
 - B. 32 days
 - C. 86 days
 - D. 91 days
- (2 marks)

Use the following information to answer question 24 to question 26:

During the year ended 30 June 2024 Chui Ltd. made a net profit before tax of Sh.36,400,000. As at 1 July 2023, retained earnings amounted to Sh.135,000,000.

The following additional information was available:

1. The issued share capital of the company is Sh.150,000,000 divided into 1,000,000 ordinary shares of Sh.100 each and 500,000, 12% preference shares of Sh.100 each.
 2. The directors have recommended that:
 - Sh.40,000,000 be transferred to general reserve.
 - The preference dividend be paid.
 - A final dividend of 5% on ordinary shares be paid.
 3. The company is subject to corporation tax at the rate of 30% per annum.
24. Calculate the preference share dividend paid during the year.
- A. Sh.10,000,000
 - B. Sh.50,000,000
 - C. Sh.5,000,000
 - D. Sh.6,000,000
- (2 marks)
25. Calculate the ordinary share dividend paid during the year.
- A. Sh.5,000,000
 - B. Sh.6,000,000
 - C. Sh.50,000,000
 - D. Sh.100,000,000
- (2 marks)
26. Calculate the amount of profit retained during the year.
- A. Sh.120,400,000
 - B. Sh.109,480,000
 - C. Sh.160,480,000
 - D. Sh.160,400,000
- (2 marks)

27. Assets are revalued when there is change in partnership. What is the purpose of revaluing assets?
 A. To get adjusted value of assets
 B. To avoid recording wrong amount
 C. To give benefit to the old partners
 D. To get the net book value of assets (2 marks)
28. Why does the net profit made by business differ from the amount in cash and at the bank?
 A. Because of charging items not involving movement of funds
 B. Because there are records not recorded in the books of account
 C. Because the business is holding too much cash in the business
 D. Because some expenses are misposted in the books of account (2 marks)
29. How is profit on sale of non-current assets treated in the cash flow statement?
 A. It is added to the operating profit
 B. It is deducted from operating profit
 C. It is deducted from cash flow from investing activities
 D. It is added to the cash flow from investing activities (2 marks)
30. Which of the following statements does not describe the intangible assets?
 A. They are classified as long-term assets
 B. They provide long term benefits
 C. They are financial instruments
 D. They lack physical existence (2 marks)

Use the following information to answer Questions 31 to question 40:

The following trial balance was extracted from the books of Kombo Ltd. as at 31 March 2024:

	Sh. "000"	Sh. "000"
Ordinary share capital of Sh.20 each		35,000
7% preference share capital of Sh.20 each		10,000
Retained earnings		24,200
General reserves		17,100
10% debentures		20,000
Land and buildings at cost	43,000	
Plant and machinery at cost	83,000	
Inventory (1 April 2023)	19,000	
Investments	23,100	
Goodwill	2,000	
Accumulated depreciation:		
Buildings (1 April 2023)		2,000
Plant and machinery (1 April 2023)		22,200
Sales		269,500
Purchases	218,600	
Dividends paid to preference shareholders	700	
Dividends paid to ordinary shareholders	800	
10% debentures interest paid	1,000	
Wages and salaries	25,400	
Electricity	3,100	
Sundry expenses	11,300	
Suspense account		42,000
Cash in hand	12,600	
Accounts receivable	17,900	
Accounts payable		19,500
	<u>461,500</u>	<u>461,500</u>

Additional information:

- Sundry expenses include Sh.600,000 paid in respect of insurance for the year ending 30 November 2024. Electricity accrued as at 31 March 2024 amounted to Sh.300,000. Electricity expenses also include Sh.2,000,000 relating to salesmen commission.

2. The suspense account is in respect to the following items:
- | Item | Sh. "000" |
|--|------------------|
| Proceeds from the issue of 250,000 ordinary shares | 12,000 |
| Proceeds from the sale of plant | <u>30,000</u> |
| | <u>42,000</u> |
3. The land and buildings were acquired ten years ago. The cost of the building was estimated at Sh.10,000,000 and the estimated useful life of the building was 50 years at the time of purchase.
4. The plant which was sold during the year ended 31 March 2024 had cost Sh.35,000,000 and had a carrying value of Sh.27,400,000 as at 1 April 2023. Depreciation amounting to Sh.3,600,000 is to be charged on plant and machinery for the year ended 31 March 2024.
5. The board of directors have recommended the following:
- No additional dividend be paid to the ordinary and preference shareholders.
 - Transfer to general reserves of Sh.1,600,000.
 - Allowance for the annual audit fee amounting to Sh.400,000
6. The corporation tax rate is 30% per annum.
7. Inventory as at 31 March 2024 was valued at Sh.22,000,000.
31. What is the cost of sales reported by Kombo Ltd. for the year ended 31 March 2024?
- A. Sh.215,600,000
 B. Sh.237,600,000
 C. Sh.220,000,000
 D. Sh.259,600,000 (2 marks)
32. What amount does Kombo Ltd. report as gross profit for the year ended 31 March 2024?
- A. Sh.31,900,000
 B. Sh.53,900,000
 C. Sh.49,500,000
 D. Sh.21,560,000 (2 marks)
33. How much is the depreciation expense for buildings for the year ended 31 March 2024?
- A. Sh.360,000
 B. Sh.200,000
 C. Sh.140,000
 D. Sh.800,000 (2 marks)
34. What is the net profit after tax for Kombo Ltd. for the year ended 31 March 2024?
- A. Sh.10,800,000
 B. Sh.3,240,000
 C. Sh.7,560,000
 D. Sh.4,570,000 (2 marks)
35. How much are the retained earnings as at 31 March 2024?
- A. Sh.35,000,000
 B. Sh.33,400,000
 C. Sh.31,760,000
 D. Sh.28,660,000 (2 marks)
36. What is the value of non-current assets reported in the statement of financial position as at 31 March 2024?
- A. Sh.81,800,000
 B. Sh.95,700,000
 C. Sh.83,800,000
 D. Sh.93,700,000 (2 marks)
37. What is the total equity reported in the statement of financial position as at 31 March 2024?
- A. Sh.104,360,000
 B. Sh.124,360,000
 C. Sh.148,560,000
 D. Sh.154,520,000 (2 marks)

38. How much are the total current liabilities as at 31 March 2024?
 A. Sh.23,740,000
 B. Sh.20,200,000
 C. Sh.22,740,000
 D. Sh.24,440,000 (2 marks)
39. What is the balance of the general reserve as at 31 March 2024?
 A. Sh.15,500,000
 B. Sh.17,100,000
 C. Sh.18,700,000
 D. Sh.16,000,000 (2 marks)
40. What is the total amount of ordinary shares reported in the statement of financial position as at 31 March 2024?
 A. Sh.30,000,000
 B. Sh.35,000,000
 C. Sh.40,000,000
 D. Sh.47,000,000 (2 marks)

Use the following information to answer Question 41 to Question 50:

The following are the summarised accounts of Kalamu Ltd. for the years ended 31 December:

	2022 Sh. "000"	2023 Sh. "000"
Assets:		
Non-current assets:		
Property, plant and equipment	8,940	10,560
Research and development cost	<u>1,860</u>	<u>2,200</u>
	<u>10,800</u>	<u>12,760</u>
Current assets:		
Inventories	7,600	8,260
Trade receivables	4,300	4,760
Investments	-	560
Cash in hand	<u>80</u>	<u>2,220</u>
	<u>11,980</u>	<u>15,800</u>
Total assets	<u>22,780</u>	<u>28,560</u>
	2022 Sh. "000"	2023 Sh. "000"
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.20 each	4,000	4,800
Share premium	2,400	2,800
Revaluation reserves	-	2,000
Retained earnings	<u>10,600</u>	<u>10,760</u>
	<u>17,000</u>	<u>20,360</u>
Non-current liabilities:		
Provision for warranties	500	600
6 % debentures	-	<u>3,000</u>
	<u>500</u>	<u>3,600</u>
Current liabilities:		
Income tax payable	640	740
Trade payables	<u>4,640</u>	<u>3,860</u>
	<u>5,280</u>	<u>4,600</u>
Total equity and liabilities	<u>22,780</u>	<u>28,560</u>

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Income statement for the year ended 31 December 2023:

	Sh.‘000’
Revenue	18,000
Cost of sales	<u>(11,000)</u>
Gross profit	7,000
Expenses	(4,900)
Finance cost	(180)
Profit on sale of equipment	<u>140</u>
Profit before tax	2,060
Income tax expenses	<u>(600)</u>
Profit for the period.	<u><u>1,460</u></u>

Additional information:

1. Deferred development expenditure amortised during the year ended 31 December 2023 was Sh.500,000.
 2. During the year ended 31 December 2023, purchase of property, plant and equipment amounting to Sh.5,340,000 was made. Proceeds from the sale of equipment amounting to Sh.1,160,000 giving rise to a profit of Sh.140,000. No other items of property, plant and equipment were disposed of. There was a revaluation on land during the year.
 3. Finance costs represents interest paid on the new 6% debenture issued on 1 January 2023.
 4. Current asset investment represents treasury bills acquired. The company deems these to represent cash equivalents.
 5. Dividends paid during the year ended 31 December 2023 amounted to Sh.1,300,000.
 6. Expenses include bad debts written off amounting to Sh. 240,000.
41. What is the value of non-current assets as at 31 December 2023?
- A. Sh.10,560,000
 - B. Sh.12,760,000
 - C. Sh.22,780,000
 - D. Sh.28,560,000
- (2 marks)
42. What was the amount received from customers during the year?
- A. Sh.11,000,000
 - B. Sh.17,000,000
 - C. Sh.17,300,000
 - D. Sh.18,000,000
- (2 marks)
43. What was the amount paid to suppliers during the year?
- A. Sh.11,660,000
 - B. Sh.11,120,000
 - C. Sh.12,440,000
 - D. Sh.12,200,000
- (2 marks)
44. What was the total amount of income taxes paid in the year 2023?
- A. Sh.600,000
 - B. Sh.640,000
 - C. Sh.500,000
 - D. Sh.740,000
- (2 marks)
45. What was the total development expenditure paid in the year 2023?
- A. Sh.1,860,000
 - B. Sh.840,000
 - C. Sh.2,200,000
 - D. Sh.500,000
- (2 marks)
46. What was the total cash generated from operating activities in the year 2023?
- A. Sh.2,550,000
 - B. Sh.3,020,000
 - C. Sh.3,500,000
 - D. Sh.2,820,000
- (2 marks)

47. What was the amount of net cash spent on investing activities in the year the year 2023?
A. Sh.2,180,000
B. Sh.5,020,000
C. Sh.3,020,000
D. Sh.3,340,000 (2 marks)
48. What were the total proceeds from the issue of share capital in the year 2023?
A. Sh.800,000
B. Sh.1,200,000
C. Sh.2,900,000
D. Sh.3,000,000 (2 marks)
49. What was the net increase in cash and cash equivalents in the year 2023?
A. Sh.3,020,000
B. Sh.2,700,000
C. Sh.2,820,000
D. Sh.2,900,000 (2 marks)
50. What was the total cash and cash equivalents at the end of the period in 2023?
A. Sh.2,800,000
B. Sh.2,220,000
C. Sh.2,780,000
D. Sh.2,900,000 (2 marks)
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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 22 April 2024. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. The concept of consistency requires that the nature of and justification for a change in accounting principle and its effect on income be disclosed in the financial statement of the period in which a change is made. Which one of following is **NOT** an example of a change in accounting principle?
 - A. Change in method of accounting for instalment sales
 - B. Change in method of inventory pricing
 - C. Change in depreciation method for non-current assets
 - D. Change in double entry when recording transactions(2 marks)
2. Which of the following is **NOT** an accounting technique in public sector?
 - A. Fund accounting
 - B. Budgetary accounting
 - C. Going concern accounting
 - D. Accrual accounting(2 marks)
3. What is a statement of affairs?
 - A. This is a statement prepared to determine closing capital
 - B. This is a statement prepared to determine opening capital
 - C. This is a statement prepared to determine profit or loss
 - D. These is a statement prepared to determine assets, liabilities and capital(2 marks)
4. When the owner of a business takes goods from inventory for his personal use, the accounting concept considered is the _____.
 - A. Relevance concept
 - B. Capitalisation concept
 - C. Monetary measurement concept
 - D. Entity concept(2 marks)
5. Which of the following is **INCORRECT**?
 - A. The statement of financial position and statement of profit or loss form part of the financial statements of a business
 - B. The statement of financial position illustrates the accounting equation
 - C. The statement of profit or loss illustrates the accounting equation
 - D. The statement of financial position and statement of profit or loss illustrate the financial position and performance of a business(2 marks)
6. Which of the following is **NOT** a function of the Auditor General?
 - A. Audit and report on the accounts of the National Assembly, the senate and the county assemblies
 - B. Audit and report on public debts
 - C. Audit and report on all companies incorporated in Kenya
 - D. Audit and report on accounts of all courts(2 marks)

7. In a limited company which of the following is shown in the statement of changes in equity?
- (i) Loan note interest
 - (ii) Dividend received
 - (iii) Transfers to reserves
 - (iv) Directors remuneration
- A. (iii) and (iv)
 - B. (i) and (ii)
 - C. (i) and (iii)
 - D. (ii) and (iii)
- (2 marks)
8. In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles. The fundamental principles include the following, **EXCEPT** _____.
- A. Objectivity
 - B. Professional competence and due care
 - C. Technical standards
 - D. Confidentiality
- (2 marks)
9. Errors are corrected via the journal because _____.
- A. It saves the bookkeeper time
 - B. It saves entering them in the ledger
 - C. It is much easier to do
 - D. It provides a good record explaining the double entry
- (2 marks)
10. Which of the following is **NOT** a qualitative characteristic of useful public sector accounting information?
- A. Reliability
 - B. Accountability
 - C. Understandability
 - D. Faithful representation
- (2 marks)
11. Which of the following expenses items incurred in connection with acquisition of machinery is charged to the non-current asset account?
- A. Transportation charges
 - B. Repair and maintenance
 - C. Cost of worn out tires
 - D. Repainting the machine
- (2 marks)
12. The purchase on credit of furniture and fittings amounting to Sh.5,050,000 was entered in the general journal as Sh.5,500,000.
Which error was made?
- A. Error of commission
 - B. Error of original entry
 - C. Error of principle
 - D. Compensating error
- (2 marks)
13. The International Accounting Standards Board's (IASBs) Conceptual Framework for Financial Reporting identifies characteristics which make financial information faithfully represent what it purports to represent.
Which of the following are examples of those characteristics?
- (i) Accruals
 - (ii) Completeness
 - (iii) Going concern
 - (iv) Neutrality
- A. (i) and (ii)
 - B. (ii) and (iv)
 - C. (ii) and (iii)
 - D. (i) and (iv)
- (2 marks)

Use the following information to answer Question 14 to Question 22:

Kijiko Ltd. commenced trading on 1 January 2023. During the month of January, the company acquired a medium-term loan of Sh.21,000,000 and issued shares which raised Sh.35,000,000. The company purchased non-current assets for Sh.21,000,000 cash, and during the year to 31 December 2023 entered into the following transactions:

1. Purchases from suppliers were Sh.19,500,000 of which Sh.2,550,000 was unpaid as at 31 December 2023.
2. Wages and salaries amounted to Sh.10,500,000 of which Sh.750,000 was outstanding as at 31 December 2023.
3. Interest on the loan of Sh.2,100,000 was fully paid during the year and a repayment of Sh.5,250,000 was made on the loan.
4. Sales turnover was Sh.29,400,000 including Sh.900,000 receivables at the year end.
5. Interest on cash deposits at the bank amounted to Sh.75,000.
6. A dividend of Sh.4,000,000 was proposed as at 31 December 2023.

Required:

14. What is the amount received from customers during the year?
 - A. Sh.29,400,000
 - B. Sh.28,500,000
 - C. Sh.28,200,000
 - D. Sh.30,300,000(2 marks)

15. What is the amount paid to suppliers during the year?
 - A. Sh.19,500,000
 - B. Sh.16,950,000
 - C. Sh.17,175,000
 - D. Sh.18,975,000(2 marks)

16. What is the amount paid to employees during the year?
 - A. Sh.10,500,000
 - B. Sh.11,500,000
 - C. Sh.9,750,000
 - D. Sh.9,975,000(2 marks)

17. What is the net cash from operating activities?
 - A. Sh.(300,000)
 - B. Sh.28,200,000
 - C. Sh.(29,525,000)
 - D. Sh.29,525,000(2 marks)

18. What is the net cash from investing activities?
 - A. Sh.21,000,000
 - B. Sh.50,750,000
 - C. Sh.29,525,000
 - D. Sh.(20,925,000)(2 marks)

19. What is the amount from net financing activities?
 - A. Sh.35,000,000
 - B. Sh.21,000,000
 - C. Sh.50,750,000
 - D. Sh.(5,250,000)(2 marks)

20. What are the cash and cash equivalents as at 1 January 2023?
 - A. Sh.29,525,000
 - B. Sh.0
 - C. Sh.(29,525,000)
 - D. Sh.300,000(2 marks)

21. What are the cash and cash equivalents as at 31 December 2023?
 - A. Sh.29,525,000
 - B. Sh.0
 - C. Sh.(29,525,000)
 - D. Sh.300,000(2 marks)

22. What is the net increase in cash and cash equivalents for the year ended 31 December 2023?

- A. Sh.29,400,000
- B. Sh.29,525,000
- C. Sh.28,200,000
- D. Sh.30,000,000

(2 marks)

Use the following information to answer Question 23 to Question 31:

The following balances were extracted from the books of account of Porini Manufacturers as at 31 March 2024:

	Sh. "000"
Advertising	2,000
Depreciation for the year (31 March 2024):	
Factory equipment	7,000
Office equipment	4,000
Direct wages	40,000
Factory insurance	1,000
Factory heat	15,000
Indirect materials	5,000
Factory electricity costs	20,000
Factory salaries and wages	25,000
Finished goods (at 1 April 2023)	24,000
Office electricity	15,000
Office general expenses	9,000
Postage and telephones	2,900
Office salaries	70,000
Raw material purchases	202,000
Raw material inventory (at 1 April 2023)	8,000
Sales	512,400
Work- in- progress (at 1 April 2023)	12,000

Additional information:

1. As at 31 March 2024, inventories were valued as follows:

	Sh. "000"
Raw materials	10,000
Work-in-progress	9,000
Finished good	30,000

2. As at 31 March 2024 there was an accrual for advertising expenses amounting to Sh.1,000,000 and a prepayment for office electricity amounting to Sh.1,500,000.

Required:

23. What is the value of closing inventory of raw materials as at 31 March 2024?

- A. Sh.10,000,000
- B. Sh.8,000,000
- C. Sh.9,000,000
- D. Sh.12,000,000

(2 marks)

24. What is the prime cost for the year ended 31 March 2024?

- A. Sh.313,000,000
- B. Sh.240,000,000
- C. Sh.316,000,000
- D. Sh.200,000,000

(2 marks)

25. What is the total factory cost of goods produced for the year to 31 March 2024?

- A. Sh.316,000,000
- B. Sh.200,000,000
- C. Sh.340,000,000
- D. Sh.313,000,000

(2 marks)

26. What is the gross profit for the year ended 31 March 2024?
 A. Sh.340,000,000
 B. Sh.310,000,000
 C. Sh.202,400,000
 D. Sh.100,000,000 (2 marks)
27. What is the net profit for the year ended 31 March 2024?
 A. Sh.70,000,000
 B. Sh.100,000,000
 C. Sh.102,400,000
 D. Sh.13,500,000 (2 marks)
28. What is the total indirect production cost for the year ended 31 March 2024?
 A. Sh.73,000,000
 B. Sh.25,000,000
 C. Sh.13,500,000
 D. Sh.3,000,000 (2 marks)
29. What is the advertising expense in the statement of profit or loss for the year ended 31 March 2024?
 A. Sh.2,000,000
 B. Sh.3,000,000
 C. Sh.9,000,000
 D. Sh.13,500,000 (2 marks)
30. What is the electricity expense in the statement of profit or loss for the year ended 31 March 2024?
 A. Sh.15,000,000
 B. Sh.1,500,000
 C. Sh.13,500,000
 D. Sh.9,000,000 (2 marks)
31. What is the cost of sales in the statement of profit or loss for the year ended 31 March 2024?
 A. Sh.340,000,000
 B. Sh.202,400,000
 C. Sh.310,000,000
 D. Sh.100,000,000 (2 marks)

Use the following information to answer Questions 32 to Question 34:

The following are extracts of statement of profit or loss and statement of financial position for N Limited for the years ended 31 December 2022 and 31 December 2023:

Statement of profit or loss

	2022	2023
	Sh. "000"	Sh. "000"
Sales (75% on credit)	240,000	240,000
Cost of sales	<u>(144,000)</u>	<u>(120,000)</u>
Gross profit	96,000	120,000
Expenses	<u>(72,000)</u>	<u>(72,000)</u>
Net Profit	<u>24,000</u>	<u>48,000</u>

Statement of Financial Position

Current assets

Inventory	78,000	66,000
Trade receivables	60,000	48,000

Current liabilities

Trade payables	72,000	48,000
Proposed dividends	24,000	24,000
Bank balance	4,800	3,000

Assume 365 days in a year

Required:

Calculate the following:

32. Quick ratio for each of the years ended 31 December 2022 and 31 December 2023.

	2022	2023	
A.	1.37 times	1.52 times	
B.	0.60 times	0.64 times	
C.	1.44 times	1.58 times	
D.	0.60 times	1.52 times	(2 marks)

33. Net profit margin for each of the years ended 31 December 2022 and 31 December 2023.

A.	2022:10% 2023:50%	
B.	2022:40% 2023:20%	
C.	2022:40% 2023:50%	
D.	2022:10% 2023:20%	(2 marks)

34. Average collection period for year ended 31 December 2023.

A.	97 days	
B.	73 days	
C.	91 days	
D.	122 days	(2 marks)

Use the following information to answer Question 35 to Question 37:

Robinson and Samson have been trading as partners sharing profit and losses in the ratio 2:1. Interest on fixed capital is provided at the rate of 10% per annum, but no interest is earned on current accounts. Interest on drawings is charged at the rate of 5% per annum. Partners are to draw annual salaries as follows:

Robinson Sh.2,500,000

Samson Sh.2,000,000

The following balances were extracted from their books of account as at 31 March 2024:

		Sh.
Capital account balance:	Robinson	11,200,000
	Samson	7,500,000
Current accounts:	Robinson	6,000,000 (Cr)
	Samson	4,500,000 (Dr)
Drawings:	Robinson	5,000,000
	Samson	6,500,000
	Titus	7,000,000

Additional information:

1. On 1 April 2023 Titus was admitted as a partner.
2. Titus brought in an amount of Sh.5,600,000 as fixed capital and Sh.3,000,000 as current capital.
3. On 1 April 2023, goodwill was agreed at Sh.2,400,000 and no account for goodwill was to be maintained in the books. Net profit for the year was Sh.26,171,300.
4. The new profit or loss sharing ratio is 3:2:1 for Robinson, Samson and Titus respectively.
5. Titus is entitled to a salary of Sh.1,500,000 per annum.

35. Calculate the total interest charged on partners' drawings.

A.	Sh.1,150,000	
B.	Sh.1,265,000	
C.	Sh.925,000	
D.	Sh.1,850,000	(2 marks)

36. What is the total profit or loss shared among the partners?

A.	Sh.18,666,300	
B.	Sh.24,666,300	
C.	Sh.17,741,300	
D.	Sh.21,096,300	(2 marks)

37. What is the adjusted current account balance?
- A. Robinson Sh.15,303,150 (Dr), Samson Sh.1,552,900 (Cr), Titus Sh.421,050 (Cr)
 B. Robinson Sh.4,103,150 (Cr), Samson Sh.2,352,900 (Dr), Titus Sh.421,050 (Cr)
 C. Robinson Sh.20,553,150 (Cr), Samson Sh.9,772,100 (Dr), Titus Sh.8,171,050 (Cr)
 D. Robinson Sh.15,303,150 (Cr), Samson Sh.1,552,900 (Dr), Titus Sh.421,050 (Cr) (2 marks)

Use the following information to answer Question 38 to Question 41:

George Kalamu owns a factory which manufactures toy cars. On 1 January 2023, he had 45,000 units of toy cars in stock. During the year ended 31 December 2023, he manufactured 1,500,000 units and sold 1,425,000 units at a price of Sh.900 per unit.

The following balances were extracted from his books of account on 31 December 2023:

	Sh.‘‘000’’
Inventory of raw materials (1 January 2023)	17,460
Purchases of raw materials	201,750
Carriage on raw materials	61,800
Direct wages	139,050
Factory expenses: Rent and rates	57,600
Lighting and power	25,800
Insurance	23,460
Plant and machinery (net book value 1 January 2023)	225,000

Additional information:

- Inventory of work in progress on 1 January 2023 and 31 December 2023 were of insignificant value and therefore they were ignored.
 - Inventory of raw materials as at 31 December 2023 was valued at Sh.24,420,000.
 - Depreciation on plant and machinery is to be provided at the rate of 20% per annum on reducing balance.
 - Finished units of toy cars are valued at factory cost.
 - Factory cost per unit of toy cars was exactly the same in the years 2022 and 2023.
38. Calculate the cost of raw materials used.
- A. Sh.201,750,000
 B. Sh.263,550,000
 C. Sh.281,010,000
 D. Sh.256,590,000 (2 marks)
39. Calculate the prime cost.
- A. Sh.340,800,000
 B. Sh.395,640,000
 C. Sh.402,600,000
 D. Sh.420,060,000 (2 marks)
40. Calculate factory cost.
- A. Sh.492,660,000
 B. Sh.547,500,000
 C. Sh.554,460,000
 D. Sh.571,920,000 (2 marks)
41. Calculate the value of inventory of finished goods as at 31 December 2023.
- A. Sh.108,000,000
 B. Sh.120,000,000
 C. Sh.43,800,000
 D. Sh.44,356,000 (2 marks)

Use the following information to answer Question 42 to Question 45:

Maureen Jana is a sole trader who runs a hardware shop. Her books of account indicated that the hardware had the following assets and liabilities as at 31 March:

	2023	2024
	Sh.	Sh.
Premises	4,550,000	4,550,000
Furniture and fittings	780,000	689,000
Motor vehicle	2,340,000	?
Inventory	816,400	965,900
Trade receivables	513,500	529,100
Trade payables	1,034,800	1,209,000
Loan	1,560,000	?
Accrued salaries and wages	119,600	97,500
Prepaid rates	32,500	46,800
Rent received in advance	52,000	88,400
Capital	4,729,400	?

Maureen did not maintain any accounting records on a double entry system. She however, kept a cash book with discount columns and a file of invoices issued and received. The summary of her cash transactions during the year ended 31 March 2024 is given below:

Cash summary

	Sh.		Sh.
Balance brought forward	569,400	Trade payables	6,533,800
Trade receivables	7,970,300	Cash purchases	1,058,200
Cash sales	2,776,800	Salaries and wages	1,081,600
Rent	806,000	Rate and insurance	213,200
Capital from Maureen Jana	650,000	Transport	366,600
Bank charges	19,500	General expenses	945,100
Loan interest	78,000	Loan repayment	1,300,000
New motor vehicle	390,000	Drawings	468,000
		Balance carried forward	<u>318,500</u>
	<u>12,772,500</u>		<u>12,772,500</u>

Additional information:

- Discount allowed during the year amounted to Sh.139,900 and discount received to Sh.176,800.
- During the year Maureen Jana took goods from the business amounting to Sh.65,000 for her personal use.
- Motor vehicles are depreciated at the rate of 20% per annum. The new motor vehicle was acquired on 1 January 2024.
- The difference in cost of furniture is due to depreciation.

42. Calculate the total purchases.
- A. Sh.1,058,200
 B. Sh.6,884,800
 C. Sh.7,943,000
 D. Sh.7,803,100 (2 marks)
43. Calculate the total sales.
- A. Sh.10,762,700
 B. Sh.10,902,600
 C. Sh.8,125,800
 D. Sh.2,776,800 (2 marks)
44. Calculate the gross profit for the year.
- A. Sh.3,109,100
 B. Sh.3,034,200
 C. Sh.2,969,200
 D. Sh.3,174,100 (2 marks)

45. Calculate the net profit or loss for the year ended 31 March 2024.
- A. Sh.702,000
 - B. Sh.906,900
 - C. Sh.874,400
 - D. Sh.767,000
- (2 marks)

Use the following information to answer Questions 46 to Question 48:

Bob Traders is a wholesale business with a rate of inventory turnover of 8 times per year. Average inventory is Sh.210,000. Mark-up is 30%. Expenses are 40% of gross profit.

46. Calculate the value of cost of goods sold.
- A. Sh.700,000
 - B. Sh.980,000
 - C. Sh.1,470,000
 - D. Sh.1,680,000
- (2 marks)

47. Calculate the value of gross profit.
- A. Sh.504,000
 - B. Sh.441,000
 - C. Sh.294,000
 - D. Sh.210,000
- (2 marks)

48. Calculate the value of net profit.
- A. Sh.176,000
 - B. Sh.264,600
 - C. Sh.302,400
 - D. Sh.210,000
- (2 marks)

Use the following information to answer Questions 49 and Question 50:

The following information for Fresh Enterprises were availed for purposes of generating reports.

Statement of financial position for the years ended 30 September:

	2022 Sh. "000"	2023 Sh. "000"
Loan interest accrued	15,000	25,000
Proposed ordinary dividend payable	20,000	40,000
12% loan notes	500,000	200,000
Ordinary share capital	4,000,000	4,000,000
8% preference share capital	500,000	500,000

49. How much in total, will appear in the statement of cash flows for the year ended 30 September 2023 for the loan interest and preference dividend paid?
- A. Sh.40,000,000
 - B. Sh.54,000,000
 - C. Sh.14,000,000
 - D. Sh.32,000,000
- (2 marks)

50. How much will appear in the statement of cash flows for the year ended 30 September 2023 for the ordinary dividend paid if 1% of ordinary share capital is payable as dividend each year?
- A. Sh.40,000,000
 - B. Sh.80,000,000
 - C. Sh.60,000,000
 - D. Sh.20,000,000
- (2 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 4 December 2023. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated (2) marks. Do NOT write anything on this paper.

1. Which legal source of law in accounting governs the activities of accountants in a specific country?
 - A. International Financial Reporting Standards (IFRS)
 - B. International Accounting Standards (IASs)
 - C. Accountants Act
 - D. International Public Sector Accounting Standards (IPSAS)(2 marks)

2. Which accounting concept dictates that financial statements should be prepared using the assumption that the entity will continue to operate for the foreseeable future?
 - A. Accrual principle
 - B. Matching principle
 - C. Going concern principle
 - D. Cost principle(2 marks)

3. Who amongst the following are considered external users of financial information?
 - A. Owners, directors and managers
 - B. Creditors, investors and government
 - C. Journalists and employees
 - D. International standardisation agencies and trading partners(2 marks)

4. Which of the following **BEST** describes the accounting treatment for Property, Plant and Equipment (PPE) revaluations under International Financial Reporting Standards (IFRS)?
 - A. Revaluations are prohibited under IFRS
 - B. Revaluations can only increase the carrying amount of PPE
 - C. Revaluations are allowed and can either increase or decrease the carrying amount, with changes recognised in other comprehensive income
 - D. Revaluations are allowed, but changes must be recognised directly in the income statement(2 marks)

5. Which of the following is an example of an intangible asset?
 - A. Land and buildings
 - B. Accounts receivable
 - C. Copyrights
 - D. Inventory(2 marks)

6. What is the main purpose of sustainability accounting?
 - A. Maximising profits for the organisation
 - B. Reporting on an entity's impact on the environment and society
 - C. Compliance with International Accounting Standards
 - D. Reducing the complexity of financial statements(2 marks)

7. Goodwill on a company's statement of financial position represents:
 - A. The market value of the company's brand
 - B. The company's reputation
 - C. The excess of the purchase price over the fair value of the company's identifiable net assets
 - D. The company's total assets(2 marks)

8. A manufacturing company has provided the following information:
Raw material inventory at the beginning of the year Sh.5,000
Raw material purchased during the year Sh.30,000
Direct labour cost Sh.25,000
Manufacturing overhead Sh.15,000
Ending raw material inventory Sh.6,000
- Calculate the cost of raw material consumed during the year.
- A. Sh.29,000
B. Sh.35,000
C. Sh.36,000
D. Sh.40,000 (2 marks)
9. Which of the following financial ratios measures a company's ability to generate profit from its sales and is often used to assess operational efficiency?
- A. Debt to Equity Ratio
B. Gross Profit Margin
C. Inventory Turnover Ratio
D. Acid-Test Ratio (2 marks)
10. Which financial ratio assesses a company's long-term financial stability by examining its ability to cover long-term debt with its assets?
- A. Inventory Turnover Ratio
B. Return on Investment (ROI)
C. Debt to Asset Ratio
D. Acid-Test Ratio (2 marks)
11. What is the primary purpose of a statement of cash flow statement in financial analysis?
- A. To calculate the company's return on investment (ROI)
B. To provide a snapshot of the company's financial position at a specific point in time
C. To show the company's profitability over a specific period
D. To track the sources and uses of cash over a specific period (2 marks)
12. Which of the following criticisms does **NOT** apply to historical cost financial statements during a period of rising prices?
- A. They are difficult to verify because transactions could have happened many years ago
B. They contain mixed values; some items are at current values and some are at out of date values
C. They understate assets and overstate profit
D. They overstate gearing in the statement of financial position (2 marks)
13. Which regulatory body is responsible for setting international accounting standards for public sector entities?
- A. International Accounting Standards Board (IASB)
B. Financial Accounting Standards Board (FASB)
C. International Public Sector Accounting Standards Board (IPSASB)
D. Governmental Accounting Standards Board (GASB) (2 marks)
14. What is the primary purpose of the Public Finance Management (PFM) Act?
- A. Promoting private sector investment
B. Regulating public sector procurement
C. Enhancing public sector financial transparency
D. Managing public sector human resources (2 marks)
15. Which entity is responsible for overseeing the preparation of public sector financial statements at the national level in your country?
- A. National Treasury
B. International Public Sector Accounting Standards Board
C. Director of Accounting Services
D. State corporations (2 marks)

16. In public sector accounting, what technique is used to ensure that funds are reserved for specific purposes and not used for other activities?
 A. Commitment accounting
 B. Accrual accounting
 C. Fund accounting
 D. Cash accounting (2 marks)
17. Which one of the following is **NOT** a feature of a not-for-profit organisation?
 A. To serve the society
 B. Managed by elected members
 C. Formed for specific purpose
 D. Surplus is shared among members (2 marks)
18. A national government has adopted a new public financial management system that includes both financial and non-financial performance indicators. One of the performance indicators measures the efficiency of the tax collection process. In the current year, the government collected Sh.1,000,000,000 in taxes and incurred Sh.10,000,000 in costs related to tax collection. Calculate the efficiency of the tax collection process as a percentage, rounding to the nearest tenth.
 A. 99.0%
 B. 98.0%
 C. 99.9%
 D. 98.9% (2 marks)

Use the following information to answer question 19 to question 22.

The following financial statements were extracted from the books of Maneno Ltd. for the years ended 30 September 2022 and 30 September 2023:

Income statements for the years ended 30 September:

	2022 Sh."000"	2023 Sh."000"
Sales (All on credit)	240,000	240,000
Cost of sales	<u>(144,000)</u>	<u>(120,000)</u>
Gross profit	96,000	120,000
Expenses	<u>(72,000)</u>	<u>(72,000)</u>
Net profit	<u>24,000</u>	<u>48,000</u>

Statement of financial position as at 30 September:

	2022 Sh."000"	2023 Sh."000"
Non-current Assets:		
Property, plants and equipment	273,600	198,600
Current assets:		
Inventory	78,000	66,000
Trade receivables	<u>60,000</u>	<u>48,000</u>
	<u>411,600</u>	<u>312,600</u>
Capital and Liabilities:		
Ordinary share capital	60,000	48,000
Share premium	16,800	15,600
Revaluation reserve	24,000	-
Revenue reserve	30,000	54,000
12% Debentures	<u>180,000</u>	<u>120,000</u>
	310,800	237,600
Current Liabilities:		
Trade payable	72,000	48,000
Proposed dividend	24,000	24,000
Bank	<u>4,800</u>	<u>3,000</u>
	<u>411,600</u>	<u>312,600</u>

19. Calculate gross profit margin ratio for years ended 30 September 2022 and 30 September 2023:
- 2022 100% and 2023 67%
 - 2022 67% and 2023 100%
 - 2022 50% and 2023 40%
 - 2022 40% and 2023 50%
- (2 marks)
20. Calculate net profit margin ratio for year ended 30 September 2022 and 30 September 2023:
- 2022 40% and 2023 17%
 - 2022 17% and 2023 40%
 - 2022 20% and 2023 10%
 - 2022 10% and 2023 20%
- (2 marks)
21. Calculate return on capital employed (ROCE) ratio for year ended 30 September 2022 and 30 September 2023:
- 2022 20.2% and 2023 7.72%
 - 2022 7.72% and 2023 20.2%
 - 2022 18.3% and 2023 40.1%
 - 2022 40.1% and 2023 18.3%
- (2 marks)
22. Calculate gearing ratio for year ended 30 September 2022 and 30 September 2023:
- 2022 57.91% and 2023 50.5%
 - 2022 50.5% and 2023 57.91%
 - 2022 50.46% and 2023 51.78%
 - 2022 51.78% and 2023 50.46%
- (2 marks)

Use the following information to answer question 23 to question 26.

George Attana had the following assets and liabilities as at 30 September 2022 and 30 September 2023:

	30 September	
	2022	2023
	Sh.“000”	Sh.“000”
Land and buildings	455,000	455,000
Furniture and fittings	78,000	68,900
Motor vehicle	23,400	X
Inventory	81,640	96,590
Accounts receivable	51,350	52,910
Accounts payable	103,480	120,900
Loan from bank	156,000	X
Salaries and wages unpaid	11,960	9,750
Prepaid rates	3,250	4,680
Rent received in advance	5,200	8,840
Capital	472,940	X

He did not maintain his accounting records in a double entry system. He however kept a cash book with discount column and a file of invoices issued and received. The summary of his cash transactions during the year ended 30 September 2023 is given below:

CASH SUMMARY			
	Sh.“000”		Sh.“000”
Balance		Trade payables	653,380
brought forward	56,940	Cash purchases	105,820
Trade receivable	797,030	Salaries and wages	108,160
Cash sales	277,680	Rates and insurance	21,320
Rent	80,600	Transport	36,660
Capital	65,000	Bank charges	1,950
		General expenses	94,510
		Loan interest	7,800
		Loan repayment	130,000
		New motor vehicle	39,000
		Drawings	46,800
		Balance carried forward	<u>31,850</u>
	<u>1,277,250</u>		<u>1,277,250</u>

The following additional information is available:

- (i) During the year ended 30 September 2023, discounts allowed amounted to Sh.15,990,000 and discounts received amounted to Sh.17,680,000.
- (ii) During the year ended 30 September 2023, George Attana took goods from the business costing Sh.6,500,000 for his personal use.
- (iii) Motor vehicle is depreciated at the rate of 20% per annum on book value. The new motor vehicle was purchased on 1 October 2022.
23. Calculate credit purchases
- A. Sh.105,000,000
B. Sh.794,300,000
C. Sh.688,480,000
D. Sh.583,340,000 (2 marks)
24. Calculate credit sales.
- A. Sh.814,580,000
B. Sh.1,092,260,000
C. Sh.277,680,000
D. Sh.1,467,960,000 (2 marks)
25. Calculate the gross profit.
- A. Sh.319,410,000
B. Sh.835,200,000
C. Sh.324,410,000
D. Sh.229,200,000 (2 marks)
26. Calculate the net profit.
- A. Sh.110,570
B. Sh.122,070
C. Sh.115,570
D. Sh.109,720 (2 marks)
27. The insurance account of William Obote indicated the following balance on 1 October 2023:
Insurance paid in advance as at 1 October 2023 Sh.786,800. Insurance paid during the month of October amounted to Sh.1,426,600 and insurance prepaid as at 31 October 2023 amounted to Sh.483,000. Calculate the amount of insurance to charge in the income statement during the month.
- A. Sh.1,122,800
B. Sh.2,213,400
C. Sh.1,730,400
D. Sh.1,426,600 (2 marks)
28. Rent receivable account of Julius Mwema indicated the following balance on 1 November 2023:
Rent received in advance Sh.50,400. Rent received during the month amounted Sh.3,640,000 and rent receivable in arrears was to Sh.147,000. Calculate the amount of rent receivable to be included in the income statement during the month.
- A. Sh.3,736,600
B. Sh.3,837,400
C. Sh.3,543,400
D. Sh.3,442,600 (2 marks)

The following information was obtained from the books of Hellena Juma. Use it to answer Question 29, Question 30 and Question 31:

Hellena Juma			
Statement of profit or loss for the year ended 30 September 2023			
	Sh. "000"	Sh. "000"	
Sales		XXX	
Sales return		<u>(13,300)</u>	
Net sales		XXX	
Opening inventory	XXX		
Purchases	84,000		
Closing inventory	<u>(42,000)</u>		
Cost of sales		<u>(70,000)</u>	
Gross profit		<u>XXX</u>	
Gross profit is at margin of 20%			

29. Calculate the value of sales.
- A. Sh.100,800
 B. Sh.83,300
 C. Sh.126,000
 D. Sh. 97,300 (2 marks)
30. Calculate the value of opening inventory.
- A. Sh.42,000
 B. Sh.28,000
 C. Sh.70,700
 D. Sh.14,000 (2 marks)
31. Calculate the gross profit.
- A. Sh.20,160
 B. Sh.16,800
 C. Sh.14,000
 D. Sh.17,500 (2 marks)
32. A firm bought a machine for Sh.7,800,000. It is to be depreciated at the rate of 30% on reducing balance. Calculate the book value of the machine after two years.
- A. Sh.5,460,000
 B. Sh.3,120,000
 C. Sh.5,460,000
 D. Sh.3,822,000 (2 marks)

Use the following information to answer question 33 to question 35.

Alice, Beatrice and Charity are trading as partners. Their partnership agreement provided the following:

- (i) Interest on capital account balances to be 5% per annum and no interest on current account balance
 (ii) Interest on drawing to be at the rate of 10% per annum on the balance at the end of the year
 (iii) Beatrice to be given a salary of Sh.40,000 per month
 (iv) Profit and loss to be shared in the ratio of 3:2:1 respectively

During the year ended 30 September 2023 the balances in the capital accounts, current accounts and drawings were as follows:

Capital accounts:

	Sh. "000"
Alice	4,000
Beatrice	3,000
Charity	2,000

Current accounts:

	Sh. "000"
Alice	1,200
Beatrice	1,000
Charity	400

Drawings:

	Sh. "000"
Alice	600
Beatrice	600
Charity	400

- Profit for year amounted to Sh.1,450,000

33. Calculate total profit shared among the partners.

- A. Sh.520,000
- B. Sh.450,000
- C. Sh.680,000
- D. Sh.1,130,000

(2 marks)

34. Calculate the total interest paid to partners.

- A. Sh.450,000
- B. Sh.160,000
- C. Sh.480,000
- D. Sh.130,000

(2 marks)

35. Calculate total interest on drawings.

- A. Sh.130,000
- B. Sh.160,000
- C. Sh.480,000
- D. Sh.450,000

(2 marks)

Use the following information to answer question 36 to question 38.

Peter Mwamba commenced transportation business on 1 July 2021. On that date he purchased a pick-up for Sh.3,000,000 in cash. On 1 July 2022 Peter Mwamba:

- (i) Purchased a lorry for Sh.4,000,000 in cash.
- (ii) Disposed the pick-up for Sh.2,650,000.

Peter Mwamba provides for depreciation at the rate of 25% per annum on straight-line method. He prepares his accounts on 30 June every year.

36. Calculate book value of the motor vehicle as at 30 June 2023.

- A. Sh.4,000,000
- B. Sh.7,000,000
- C. Sh.3,000,000
- D. Sh.4,500,000

(2 marks)

37. Calculate the accumulated depreciation as at 30 June 2023.

- A. Sh.2,250,000
- B. Sh.1,500,000
- C. Sh.4,500,000
- D. Sh.1,000,000

(2 marks)

38. Calculate the profit or loss on the motor vehicle disposed.

- A. Sh.750,000
- B. Sh.3,000,000
- C. Sh.2,650,000
- D. Sh.400,000

(2 marks)

39. Which of the following is a method of providing depreciation to non-current assets?

- A. Economic entity method
- B. Accrual method of depreciation
- C. Reducing balance method
- D. Full disclosure method

(2 marks)

40. A company proposes to pay dividends to its shareholders. Net profit for the year is Sh.6,500,000. There are 250,000 12% preference shares of Sh.100 each and 500,000 ordinary shares of Sh.100 each. The proposal is to pay Sh.5.00 per share on ordinary shares. Sh.500,000 is to be transferred to general reserve. Calculate the amount of the retained profit.
- A. Sh.2,500,000
 B. Sh.3,000,000
 C. Sh.500,000
 D. Sh.6,500,000

(2 marks)

41. Part of a company's draft statement of cash flows is shown below:

	Sh. "000"
Operating profit	8,640,000
Depreciation charges	(2,160,000)
Proceeds of sale of non-current assets	360,000
Increase in inventory	(330,000)
Increase in accounts payable	440,000

The following criticisms of the above extract have been made:

- (i) Depreciation charges should have been added, not deducted.
 (ii) Increase in inventory should have been added, not deducted.
 (iii) Increase in accounts payable should have been deducted, not added.
 (iv) Proceeds of sale of non-current assets should not appear in this part of the statement of cash flows.

Which of these criticisms are valid?

- A. (ii) and (iii) only
 B. (i) and (iv) only
 C. (i) and (iii) only
 D. (ii) and (iv) only
42. In preparing a company's statement of cash flows complying with International Accounting Standard (IAS) 7, which of the following items could form part of the calculation of cash flow from financing activities?
- A. Proceeds of sale of premises
 B. Dividends received
 C. Bonus issue of shares
 D. Sale of ordinary shares

(2 marks)

(2 marks)

43. Which of the following should be capitalised in the initial carrying amount of an item of plant?

- (i) Cost of transporting the plant to the factory
 (ii) Cost of installing a new power supply required to operate the plant
 (iii) Cost of a three-year plant maintenance agreement
 (iv) Cost of a three-week training course for staff to operate the plant

- A. (i) and (iii)
 B. (i) and (ii)
 C. (ii) and (iv)
 D. (iii) and (iv)

(2 marks)

44. International Accounting Standard (IAS) 2: Inventories, defines the extent to which overheads are included in the cost of inventories of finished goods. Which of the following statements about the IAS 2 requirements in this area are correct?

- (i) Finished goods inventories may be valued on the basis of labour and materials cost only, without including overheads.
 (ii) Carriage inwards, but not carriage outwards, should be included in overheads when valuing inventories of finished goods.
 (iii) Factory management costs should be included in fixed overheads allocated to inventories of finished goods.

- A. (i), (ii) and (iii)
 B. (i) and (ii) only
 C. (i) and (iii) only
 D. (ii) and (iii) only

(2 marks)

45. Which of the following describes the meaning of prudence in the preparation and presentation of financial statements?
- A. Ensuring that accounting records and financial statements are free from material error
 - B. The use of a degree of caution in making estimates required under conditions of uncertainty
 - C. Understating assets and gains and overstating liabilities and losses
 - D. Ensuring that financial statements comply with all accounting standards and legal requirements
- (2 marks)

46. A company with an accounting date of 31 October carried out a physical check of inventory on 4 November 2023, leading to an inventory value at cost at this date of Sh.483,700. Between 1 November 2023 and 4 November 2023, the following transactions took place:
- (i) Goods costing Sh.38,400 were received from suppliers.
 - (ii) Goods that had cost Sh.14,800 were sold for Sh.20,000.
 - (iii) A customer returned, in good condition, some goods which had been sold to him in October for Sh.600 and which had cost Sh.400.
 - (iv) The company returned goods that had cost Sh.1,800 in October to the supplier, and received a credit note for them.

What figure should appear in the company's financial statements at 31 October 2023 for closing inventory, based on this information?

- A. Sh.458,700
 - B. Sh.505,900
 - C. Sh.508,700
 - D. Sh.461,500
- (2 marks)
47. CK Ltd. had non-current assets with a carrying value of Sh.5,000,000 on 1 December 2022. The following information relates to the year ended 30 November 2023:

- Depreciation of Sh.150,000 was charged to the income statement
- Land and buildings with a carrying value of Sh.2,400,000 were revalued to Sh.3,400,000
- An asset with a carrying value of Sh.240,000 was disposed of for Sh.300,000
- The carrying value of non-current assets at 30 November 2023 was Sh.8,400,000.

What amount should be shown for the purchase of non-current assets in the statement of cash flows for the year ended 30 November 2023?

- A. Sh.2,790,000
 - B. Sh.3,590,000
 - C. Sh.2,850,000
 - D. Sh.390,000
- (2 marks)

48. Which of the following statements about accounting concepts and the characteristics of financial information are correct?

- (i) Substance over form in accounting refers to a concept that transactions recorded in the financial statements and accompanying disclosures of a company must reflect their economic substance rather than their legal form.
- (ii) The historical cost concept is a static snapshot of asset value at the time of purchase and provides no measure of how value may have changed over time.
- (iii) It may sometimes be necessary to exclude information that is relevant and reliable from financial statements because it is too difficult for some users to understand.

- A. (i) and (ii) only
 - B. (ii) and (iii) only
 - C. (i) and (iii) only
 - D. (iii) only
- (2 marks)

49. Amani Manufacturers bought a machine for Sh.20,000,000 on 1 January 2020, which had an expected useful life of four years and an expected residual value of Sh.4,000,000. The asset was to be depreciated on the straight-line basis. The firm's policy is to charge a full year's depreciation in the year of purchase and the year of disposal. On 31 December 2022, the machine was disposed of for Sh.6,400,000.

What amount should be entered as profit or loss on disposal in the statement of profit or loss for the year ended 31 December 2022?

- A. Profit of Sh.2,400,000
 - B. Loss of Sh.2,400,000
 - C. Profit of Sh.1,400,000
 - D. Loss of Sh.1,600,000
- (2 marks)

50. A supplier sends you a statement showing a balance outstanding of Sh.14,350,000. Your own records show a balance outstanding of Sh.14,500,000. Which one of the following could be the reason for this difference?

- A. The supplier sent an invoice for Sh.150,000 which you have not yet received
 - B. The supplier has allowed you Sh.150,000 cash discount which you had omitted to enter in your ledgers
 - C. You have paid the supplier Sh.150,000 which he has not yet accounted for
 - D. You have returned goods worth Sh.150,000 which the supplier has not yet accounted for
- (2 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 21 August 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

Grace Kalu runs a hardware as a sole trader. She does not employ a fulltime accountant. The following were her balances as at 30 June:

	2022 Sh. "000"	2023 Sh. "000"
Inventory	15,000	20,000
Accounts payable	30,000	40,000
Accrued electricity expenses	1,500	1,750
Insurance prepaid	5,000	6,000
Bank balance	34,000	?
Motor vehicles	75,000	65,000
Equipment	50,000	70,000
Cash in hand	2,000	1,250

Additional information:

- Grace Kalu charges a markup of 25% on all purchases.
- Sales were both on credit and cash sales. Cash sales for the year ended 30 June 2023 amounted to Sh.50,000,000.
- All credit sales were received and banked during the year ended 30 June 2023.
- During the year ended 30 June 2023, all receipts were promptly banked and all payments were made by cheque except:
 - Cash payment amounting to Sh.12,000,000 to Trinity Traders, a supplier of timber.
 - Weekly casual wages totalling to Sh.5,500,000 per year.
 - Weekly cash drawings of Sh.250,000 per week for herself.
- Equipment with a cost of Sh.25,000,000 was acquired on 1 July 2022 through a 3 year bank loan and an interest rate of 5% per annum.
- During the year ended 30 June 2023, the following payments were made through the bank account:

	Sh. "000"
Salaries	10,750
General expenses	2,000
Electricity expenses	8,000
Insurance	11,000
Repairs and maintenance	17,000
Purchases	130,000
Motor vehicle running expenses	6,000

Assume a 52-week year.

Required:

- Statement of profit or loss account for the year ended 30 June 2023. (12 marks)
- Statement of financial position as at 30 June 2023. (8 marks)

(Total: 20 marks)

QUESTION TWO

(a) The following are summarised accounts of Beba Ltd. for the year ended 30 June:

Income statement:	2022	2023
	Sh. "000"	Sh. "000"
Sales	20,000	36,000
Cost of sales	<u>(16,000)</u>	<u>(27,000)</u>
Gross profit	4,000	9,000
Expenses:		
Administrative expenses	(1,000)	(2,000)
Sales and distribution cost	(500)	(1,300)
Interest on loan	<u>(500)</u>	<u>(300)</u>
Profit before tax	2,000	5,400
Income tax expense	<u>(600)</u>	<u>(1,600)</u>
Profit after tax	<u>1,400</u>	<u>(3,800)</u>
 Statement of financial position:		
	2022	2023
	Sh. "000"	Sh. "000"
Non-current assets:		
Property, plant and equipment (net book value)	17,500	19,400
Current assets:		
Inventory	1,300	1,700
Accounts receivable	2,100	3,300
Bank balance	<u>1,600</u>	<u>-</u>
Total assets	<u>22,500</u>	<u>24,400</u>
Equity and liabilities:		
Ordinary shares of Sh.10 each	10,000	10,000
Share premium	2,000	2,000
General reserves	1,000	1,400
Retained earnings		
Non-current liabilities:	2,000	4,000
10% bank loan	5,000	3,000
Current liabilities:		
Accounts payable	1,600	1,500
Corporation tax	600	1,600
Accrued interest on loan	300	100
Bank overdraft	<u>-</u>	<u>800</u>
	<u>22,500</u>	<u>24,400</u>

Inventory on 30 June 2021 was valued at Sh.1,100,000.

Assume a 360-day year.

Required:

- (i) Net profit margin. (2 marks)
- (ii) Inventory turnover in days. (2 marks)
- (iii) Current ratio. (2 marks)
- (iv) Quick (acid test) ratio. (2 marks)
- (v) Return on capital employed (ROCE). (2 marks)
- (b) Little Bag Ltd. is a company that manufactures different types of bags and supplies them in East and Central Africa. On 1 July 2022 the company's books showed the following balances:

	Sh. "000"	Sh. "000"
Motor vehicles	40,000	
Accumulated depreciation		16,000

During the year ended 30 June 2023, the following transactions took place:

1. A motor vehicle purchased on 1 July 2020 at Sh.8,000,000 was traded in for a new vehicle costing Sh.12,000,000. Little Bag Ltd. paid Sh.6,400,000 in the trade-in transaction which took place on 31 December 2022.
2. On 28 February 2023, a second hand vehicle was purchased from Tiwa Motors at Sh.5,600,000. Tiwa Motors had purchased the vehicle on 30 June 2019 at Sh.8,000,000.
3. On 1 October 2022, a new motor vehicle was purchased at Sh.8,000,000.
4. On 31 January 2023, a motor vehicle purchased on 1 February 2020 at a cost of Sh.6,400,000 was sold at Sh.2,400,000.
5. It is the company's policy to charge depreciation on motor vehicles at 20% per annum on cost with a full year's depreciation charge in the year of acquisition and no depreciation charge in the year of disposal.

Required:

- | | | |
|-------|-----------------------------------|-----------|
| (i) | Motor vehicle account. | (4 marks) |
| (ii) | Accumulated depreciation account. | (2 marks) |
| (iii) | Depreciation expense account. | (1 mark) |
| (iv) | Disposal account. | (3 marks) |

(Total: 20 marks)

QUESTION THREE

Stacy and Tobias have been operating a hotel and conference facility as partners sharing profits and losses equally after allowing for interest on capital at the rate of 10% per annum. They admitted Diana to the partnership on 1 January 2023.

The following trial balance was extracted from the books of the partnership as at 30 June 2023:

	Sh. "000"	Sh. "000"
Sales		31,084
Sacco loan		4,000
Purchases	24,000	
Partners' capital accounts:		
Stacy		8,000
Tobias		6,000
Diana		4,000
Partners' current accounts:		
Stacy		460
Tobias	80	
Inventory (1 July 2022)	400	
Cash and cash equivalent	2,320	
Discounts allowed and discounts received	160	240
Partners drawings:		
Stacy	400	
Tobias	360	
Land and buildings (cost)	14,000	
Motor vehicles (cost)	6,800	
Furniture and fittings (cost)	5,200	
Returns inward	460	
Accumulated depreciation:		
Buildings		400
Motor vehicles		1,920
Furniture and fittings		640
Carriage inwards	1,680	
Administrative expenses	224	
Rent, rates and insurance	1,140	
Accounts receivable and accounts payable	<u>1,440</u>	<u>1,920</u>
	<u>58,664</u>	<u>58,664</u>

Additional information:

1. On admission of Diana to the partnership, the terms of the partnership agreement were changed. The new terms provided as follows:
 - Diana to introduce capital of Sh.4,000,000.
 - Profit or loss sharing ratio was changed to 5:3:2 for Stacy, Tobias and Diana respectively.
 - Diana was to earn a monthly salary of Sh.140,000 per month from the date of admission given that she will dedicate most of her time to the hotel.
 - For the purpose of the changes, goodwill was agreed at Sh.5,400,000 and was to be written off immediately.
 - Land was revalued upwards by Sh.1,000,000.
2. Included in the value of land and building is Sh.3,600,000 which is the cost of land.
3. Revenues after admission of Diana were 50% more than before admission. Expenses accrued evenly throughout the year.
4. Depreciation is provided as follows:

Asset	Rate per annum
Building	2.5% on cost
Motor vehicles	20% on reducing balance
Furniture and fittings	10% on reducing balance
5. Inventory as at 30 June 2023 was valued at Sh.1,200,000 at net realisable value and Sh.1,500,000 at cost.
6. The interest on Sacco loan is charged at the rate of 10% per annum. This interest had not been paid as at 30 June 2023.
7. A credit sale of Sh.2,400,000 had not been recorded in the books.

Required:

- (a) Statement of profit or loss and appropriation account for the year ended 30 June 2023.
(Prepare in columnar form to show before and after admission of the new partners). (10 marks)
- (b) Partners' current accounts as at 30 June 2023. (4 marks)
- (c) Statement of financial position as at 30 June 2023. (6 marks)

(Total: 20 marks)**QUESTION FOUR**

Upper-End Ltd. has an authorised share capital of 20,000,000 ordinary shares of Sh.20 each and Sh.10,000,000 8% preference shares of Sh.1 each. The following trial balance was extracted from the books of the company as at 31 December 2022:

	Sh. "000"	Sh. "000"
Ordinary share capital (issued, Sh.10 paid per share)		200,000
8% preference share capital (issued and fully paid)		80,000
Inventory (1 January 2022)	102,994	
Accounts receivable and accounts payable	227,219	54,818
10% loan notes		40,000
General reserve		15,000
Retained earnings (1 January 2022)		12,411
Loan note interest	2,000	
Plant and machinery (at cost)	225,000	
Motor vehicles (at cost)	57,200	
Computers (at cost)	10,000	
Corporate tax payable (1 January 2022)		2,100
Bank	5,035	
Purchases and sales	419,211	891,676
General office expenses	13,420	
Returns inward	18,400	
Carriage inwards	1,452	
Salaries and wages	236,519	
Rent, rates and insurance	16,240	
Directors' fees	13,415	
Accumulated depreciation:		
Plant and machinery		32,600
Motor vehicles		18,200
Interim preference dividend	4,000	
Allowance for doubtful debts		5,300
	<u>1,352,105</u>	<u>1,352,105</u>

Additional information:

1. As at 31 December 2022, the directors proposed that final dividends on preference shares be paid as well as a dividend of 10% on the ordinary shares.
2. As at 31 December 2022, prepaid insurance amounted to Sh.4,000,000 and business rates amounting to Sh.800,000 were outstanding.
3. As at 31 December 2022, the directors proposed Sh.8,000,000 to be transferred to the general reserve.
4. Inventory as at 31 December 2022 was valued at Sh.95,000,000.
5. Allowance for doubtful debts is to be increased by Sh.1,150,000.
6. The corporate tax for the year ended 31 December 2022 is estimated to be Sh.8,500,000.
7. Depreciation is to be provided as follows:

Asset	Rate per annum and method
Plant and machinery	10% on reducing balance
Motor vehicles	20% on reducing balance
Computers	20% on cost
8. Sales include an amount of Sh.91,000,000 which was collected on behalf of a third party and has not yet been remitted.

Required:

- (a) Statement of profit or loss for the year ended 31 December 2022. (12 marks)
 - (b) Statement of financial position as at 31 December 2022. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) State **FOUR** causes of depreciation in non-current assets. (4 marks)
 - (b) Describe the following accounting principles:
 - (i) Conservatism principle. (2 marks)
 - (ii) Matching principle. (2 marks)
 - (c) Identify **SIX** sources of revenue for not-for-profit organisations. (6 marks)
 - (d) Explain the following terms as used in manufacturing accounts:
 - (i) Prime cost. (2 marks)
 - (ii) Unrealised profit. (2 marks)
 - (iii) Work-in-progress. (2 marks)
- (Total: 20 marks)**

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 24 April 2023. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

Neno Moja commenced his business on 1 April 2022. Due to his limited accounting knowledge, he did not maintain a complete set of accounts. He engaged a financial accounting consultant to prepare his financial statements at the end of the year.

The consultant's examination revealed the following:

1. On the commencement date he deposited Sh.1,200,000 into the bank account, converted his pick-up valued at Sh.660,000 into business use and purchased equipment worth Sh.960,000 using a cheque from the business bank account. As at 1 April 2022, the pick up was estimated to have a remaining useful life of 3 years while equipment has a useful life of 5 years.
2. On 1 April he employed an office assistant at a monthly salary of Sh.60,000 paid from his bank account.
3. On 1 July 2022, he borrowed Sh.400,000 at 15% per annum from the bank. No interest had been paid as at 31 March 2023.
4. Land rates for 15 months up to 30 June 2023 amounted to Sh.360,000, but had not been paid.
5. The financial accountant's consultancy fee was agreed at Sh.55,000.
6. Cash withdrawal for office use per week amounted to Sh.18,000. Cash withdrawals were all used for administrative expenses.
7. Neno Moja provided the following bank payments summary:

Expense	Amount
Electricity	240,000
Motor vehicle expenses	182,000
General expenses	270,000
Insurance	160,000

8. Purchases for the period amounted to Sh.1,960,000 all paid from the bank.
9. Credit sales of Sh.6,178,000 were made during the year, out of which Sh.5,080,000 was paid directly by the customers into the bank account. As at 31 March 2023, debts amounting to Sh.17,000 were written off.
10. During the year, cash sales amounted to Sh.726,000, out of which Sh.560,000 was banked, Sh.99,000 was taken for personal use, the rest was used on general expenses except Sh.30,100 which was left in the office cabinet as at 31 March 2023.
11. Closing inventory as at 31 March 2023 was valued at Sh.158,000.
12. As at 31 March 2023, electricity outstanding and insurance expense pre-paid amounted to Sh.48,000 and Sh.40,000 respectively.

Assume a year has 52 weeks.

Required:

- (a) Statement of profit or loss for the year ended 31 March 2023. (12 marks)
 - (b) Statement of financial position as at 31 March 2023. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

The following trial balance was extracted from the books of Kulah Manufacturers Ltd. as at 31 December 2022:

	Sh. "000"	Sh. "000"
Sales		920,000
Ordinary share capital		216,000
Share premium		18,000
General reserve		79,200
Land and building (building cost - Sh.84 million)	244,000	
Plant and machinery	216,000	
Accumulated depreciation:		
Building		32,400
Plant and machinery		122,400
Inventory (1 January 2022):		
Raw materials	43,200	
Work-in-progress	28,800	
Finished goods	69,200	
Accounts receivable and accounts payable	298,640	39,600
Allowance for unrealised profit (1 January 2022)		3,600
10% debentures		36,000
Bank overdraft		77,040
Allowance for doubtful debts		5,040
Purchases of raw materials	360,000	
Purchases of finished goods	3,600	
Factory wages	29,880	
Indirect factory expenses	38,880	
Administrative expenses	81,000	
Selling and distribution	133,200	
Debenture interest	2,880	
	<u>1,549,280</u>	<u>1,549,280</u>

Additional information:

1. Inventory as at 31 December 2022 was valued as follows:

	Sh.
Raw materials	46,800,000
Work-in-progress	32,400,000
Finished goods	183,600,000

2. Depreciation is charged on the following basis:

Asset	Method and rate per annum	Apportionment basis
Building	2.5% on straight line	70% manufacturing, 30% administrative
Plant and machinery	10% on reducing balance	60% manufacturing, 40% administrative

3. Bad debts amounting Sh.1,440,000 are to be written off and an allowance for doubtful debts of Sh.6,120,000 is to be provided.

4. Accrued and prepaid expense as at 31 December 2022 were as follows:

	Accrued Sh. "000"	Prepaid Sh. "000"
Factory wages	2,520	-
Administrative expenses	3,240	4,680
Selling and distribution	5,040	720

5. The following were agreed and provided for by the management and the board:

- Corporate tax for the year Sh.28,800,000
- Proposed an ordinary share dividend of Sh.21,600,000.
- Transfer of Sh.3,600,000 to general reserve.

6. Manufactured goods are transferred to the warehouse at cost plus 50% mark-up.

Required:

Prepare the following:

- (a) Manufacturing statement and statement of profit or loss for the year ended 31 December 2022. (12 marks)
- (b) Statement of financial position as at 31 December 2022. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Describe **THREE** functions of the International Public Sector Accounting Standards (IPSAS). (6 marks)
- (b) The following financial statements were extracted from the books of Mlima Ltd. for the year ended 31 December 2022:

Mlima Ltd.**Statement of profit or loss for the year ended 31 December 2022:**

	Sh. "000"	Sh. "000"
Profit after tax		66,450
Less:		
Impairment of goodwill	12,000	
Proposed dividends	<u>36,000</u>	(48,000)
Retained profit for the year		18,450
Add: Retained profit brought forward		<u>25,400</u>
Retained profit carried forward		<u>43,850</u>

Statement of financial position as at 31 December:

Non-current assets:	2021	2022
	Sh. "000"	Sh. "000"
Buildings	64,000	48,000
Plant and machinery	112,000	154,000
Motor vehicles	<u>164,000</u>	<u>302,000</u>
	340,000	504,000
Other non current assets:		
Investment (at cost)	56,000	-
Goodwill	<u>38,000</u>	<u>26,000</u>
	434,000	530,000
Current assets:		
Inventory	78,800	101,100
Accounts receivable	96,600	115,000
Bank	<u>67,180</u>	<u>62,350</u>
	<u>676,580</u>	<u>808,450</u>
Equity and liabilities:		
Equity		
Ordinary share capital	350,000	420,000
Preference shares	80,000	50,000
Share premium	28,400	48,400
General reserve	60,000	60,000
Revenue reserve	<u>25,400</u>	<u>43,850</u>
	543,800	622,250
Liabilities:		
Accounts payable	107,380	113,800
Accrued electricity	4,000	6,400
Dividend payable	21,400	36,000
Tax payable	-	<u>30,000</u>
	<u>676,580</u>	<u>808,450</u>

Additional information:

- Investments were sold at a gain of Sh.6,000,000.
- During the year ended 31 December 2022, depreciation charged on building amounted to Sh.1,600,000. No other buildings were acquired or constructed during the year.
- During the year ended 31 December 2022, an item of plant and machinery worth Sh.60,000,000 was acquired.
- Motor vehicles which had cost Sh.80,000,000 and with accumulated depreciation of Sh.54,000,000 were disposed of during the year ended 31 December 2022 at Sh.30,000,000. The total depreciation charge for the year for all motor vehicles was Sh.30,000,000.

Required:

Statement of cash flows in accordance with the requirement of International Accounting Standard (IAS) 7
 "Statement of Cash Flows" for the year ended 31 December 2022.

(14 marks)

(Total: 20 marks)**QUESTION FOUR**

The following balances were extracted from the books of Mchezo Sports Club as at 1 January 2022:

	Sh. "000"
Club house	38,000
Sports equipment (cost Sh.40,000,000)	24,000
Furniture (net book value)	5,000
Bar inventory	4,400
Bank	1,500
Subscription in arrears	350
Subscription in advance	265
Bar creditors	3,720
Accrued general expenses	500
Investments	8,000

All cash received was paid into the club bank account and all payments were made by cheque. The bank statements for the year ended 31 December 2022 have been analysed and the following summary prepared:

	Bank account		
Receipts	Sh. "000"	Payment	Sh. "000"
Balance brought forward	1,500	New sports equipment	16,000
Life membership fund	12,000	Repairs to sports equipment	2,520
Subscription	7,700	Water and electricity	6,530
Bar sales	69,660	Prizes for tennis tournament	140
Donations	310	Sports uniform	900
Tennis tournament entry fees	240	Travel expenses	2,825
Football ticket sales	180	Renting of football pitch	400
Tennis court entry fees	5,700	Rates on club house	1,100
Investment income	230	Payment for bar supplies	48,400
		Bar wages	7,800
		Training expenses	3,866
		General expenses	4,619
		Balance carried forward	<u>2,420</u>
	<u>97,520</u>		<u>97,520</u>

Additional information:

- During the year, the club introduced a life membership fund. The contributions to the fund were set at Sh.400 per member. A tenth of the fund fee will be recognised in the income and expenditure account every year.
- As at 31 December 2022, creditors for bar purchases and general expenses outstanding amounted to Sh.4,300,000 and Sh.640,000 respectively.
- It is the club's policy to write off the cost of sports equipment over a ten year period. A full year's depreciation is recognised in the year of purchase and no depreciation in the year of disposal.
- Furniture is depreciated at a rate of 10% per annum based on the balance at the year end.
- Subscription in arrears as at 31 December 2022 amounted to Sh.230,000 and subscription received in advance amounted to Sh.543,000.
- As at 31 December 2022, bar inventory was valued at Sh.3,850,000.

Required:

- Bar statement of profit or loss for the year ended 31 December 2022. (4 marks)
- Income and expenditure account for the year ended 31 December 2022. (8 marks)
- Statement of financial position as at 31 December 2022. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight **SIX** objectives of public sector accounting. (6 marks)
- (b) Explain the following terms as used in public sector accounting:
- (i) Commitment accounting. (2 marks)
 - (ii) Budgetary accounting. (2 marks)
- (c) In relation to intangible assets:
- (i) Define the term “intangible asset”. (2 marks)
 - (ii) Cite **TWO** examples of intangible assets. (2 marks)
- (d) Discuss **THREE** limitations of ratios as financial analysis tools. (6 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 5 December 2022. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

- (a) Citing **FOUR** reasons, justify why not-for-profit entities should be subject to regulation. (8 marks)
- (b) Vipi Traders' financial year ends on 31 March. On 1 April 2021, Vipi Traders had a balance on plant account of Sh.334,800,000 and on accumulated depreciation of plant account of Sh.184,860,000.

Vipi Traders' policy is to provide depreciation using the reducing balance method applied to the non-current assets held at the end of the financial year at the rate of 20% per annum. Depreciation charge is not pro-rated.

On 1 September 2021, the company sold for Sh.12,330,000 a plant which it had acquired on 31 October 2018 at a cost of Sh.32,400,000. Additionally, installation costs totalled Sh.3,600,000. During the year ended 31 March 2020, major repairs costing Sh.5,670,000 had been carried out on this plant.

A new motor was fitted on the plant on 12 December 2020 at a cost of Sh.3,960,000. Further repairs costing Sh.2,430,000 were carried out during the year ended 31 March 2021.

The company acquired a new replacement plant on 30 November 2021 at a cost of Sh.8,640,000 inclusive of installation charges of Sh.6,300,000.

Required:

- (i) Plant account. (4 marks)
- (ii) Accumulated depreciation on plant account. (6 marks)
- (iii) Profit or loss on disposal of plant. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The following are summarised financial statements of Tazama Ltd. for the years ended 30 June 2021 and 30 June 2022.

Statement of financial position as at 30 June:	2022		2021	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Non-current assets:				
Property, plant and equipment		12,000		11,000
Intangible assets		<u>500</u>		<u>-</u>
		12,500		11,000
Current assets:				
Inventory	14,000		13,000	
Accounts receivable	16,000		15,000	
Bank and cash balances	<u>500</u>	<u>30,500</u>	<u>500</u>	<u>28,500</u>
		<u>43,000</u>		<u>39,500</u>

	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Equity and liabilities:				
Capital and reserves				
Ordinary share capital		3,300		3,300
Share premium		1,300		1,300
Revaluation reserves		2,000		2,000
Retained earnings		<u>6,400</u>		<u>7,400</u>
		13,000		14,000
Non-current liabilities:				
Long-term loan		6,000		5,500
Current liabilities:				
Accounts payable	18,000		18,400	
Current tax	5,400		1,000	
Proposed dividend	600		600	
		<u>24,000</u>		<u>20,000</u>
		<u>43,000</u>		<u>39,500</u>

Statement of profit or loss from the year ended 30 June:

	2022 Sh. "000"	2021 Sh. "000"
Revenue	60,000	50,000
Cost of sales	<u>(42,000)</u>	<u>(34,000)</u>
Gross profit	18,000	16,000
Operating expenses	(15,500)	(13,000)
Finance cost	<u>(2,200)</u>	<u>(1,300)</u>
Profit before tax	300	1,700
Income tax expense	<u>(350)</u>	<u>(600)</u>
Profit (loss) after tax	(50)	1,100
Proposed dividend	<u>(600)</u>	<u>(600)</u>
Retained earnings for the year	<u>(650)</u>	<u>500</u>

Additional information:

- As at 1 July 2020, opening inventory was valued at Sh.11,000,000.
- As at 1 July 2020, accounts receivable and accounts payable were valued at Sh.18,000,000 and Sh.17,600,000 respectively.
- During the years ended 30 June 2021 and 30 June 2022, 80% of sales were on credit while 10% of purchases were on a cash basis.

Assume a 365-day year.

Required:

Compute each of the following ratios for the years ended 30 June 2021 and 30 June 2022:

- Quick ratio. (2 marks)
 - Inventory turnover. (2 marks)
 - Accounts receivable turnover in days. (4 marks)
 - Accounts payable turnover in days. (4 marks)
 - Times interest earned ratio. (2 marks)
- (b) Highlight **THREE** risks that might arise due to each of the following situations:
- Low inventory turnover. (3 marks)
 - High debtors turnover. (3 marks)

(Total: 20 marks)

QUESTION THREE

Jayden and Imani are in a business partnership trading under the name Jayman Partnership. Jayden and Imani share profits and losses equally. They do not maintain proper books of accounts. They have provided you with the following information for the year ended 30 September:

	2021 Sh. "000"	2022 Sh. "000"
Motor vehicle (net book value)	96,000	?
Furniture and fittings (net book value)	18,000	?
Accounts receivable	30,600	?
Accounts payable	21,168	15,288
Inventory	27,060	24,435
Bank balance	4,740	?

An analysis of the cash book for the year ended 30 September 2022 was as follows:

	Sh. "000"	Sh. "000"
Receipts		
Cash from accounts receivable		174,576
Additional capital by Jayden		12,000
Cash sales		29,340
Payments		
Motor vehicle expenses	5,976	
Internet and stationery	2,088	
Electricity expenses	3,000	
Insurance expenses	6,000	
Rent and rates	4,320	
Salaries and wages	16,800	
Payment for purchases	153,504	
Drawings - Jayden	6,624	
- Imani	5,100	
Administrative expenses	1,680	

Additional information:

- Credit sales during the year amounted to Sh.163,116. All purchases made during the year ended 30 September 2022 were on credit.
- On 1 October 2021, Jayden's capital was Sh.10,000,000 less than that of Imani. Imani's capital amounted to Sh.80,000,000.
- The current accounts for Jayden and Imani each had a balance of Sh.2,616,000 as at 1 October 2021.
- The capital accounts earn an interest of 1% per annum.
- During the year ended 30 September 2022, some motor vehicles were disposed of on credit for Sh.32,000,000. Jayden also sold other partnership's motor vehicles for Sh.12,500,000 and withdrew the cash for personal use.

The combined net book value of all these motor vehicles was Sh.33,000,000. These transactions have not been recorded in the books of account.

- Depreciation is to be provided on a reducing balance method as follows:

Asset	Rate per annum
Motor vehicles	12.5%
Furniture and fittings	10%

No depreciation is charged in the year of disposal.

- As at 30 September 2022, pre-paid insurance amounted to Sh.3,000,000.
- As at 30 September 2022, the outstanding expenses were as follows:

	Sh. "000"
Administrative expenses	180
Electricity expenses	624
Internet and stationery	312

Required:

- Statement of profit or loss and appropriation account for the year ended 30 September 2022. (10 marks)
- Partners' current accounts. (4 marks)
- Statement of financial position as at 30 September 2022. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The following balances were extracted from the books of Sukari Ltd. as at 31 October 2022:

	Sh. "000"
Ordinary shares of Sh.200 each	600,000
8% preference shares of Sh.20 each	100,000
Share premium account	80,000
6% debentures	100,000
Accounts payable	148,000
Accounts receivable	330,000
Sales	4,800,000
Purchases	4,220,000
Discounts allowed	5,000
Discounts received	13,000
Buildings (at cost)	500,000
Accumulated depreciation (1 November 2021)	50,000
Fixtures and fittings at cost	640,000
Accumulated depreciation (1 November 2021)	256,000
Inventory (1 November 2021)	420,000
Returns outward	80,000
Corporate tax	70,000
Administrative expenses	56,000
Selling and distribution expenses	167,000
Bad debts written off	4,000
Allowance for doubtful debts	18,000
Retained earnings (1 November 2021)	302,000
Goodwill	160,000
Bank	75,000
Suspense account	40,000
General reserves	60,000

The following additional information is available:

- Depreciation is provided annually on cost of the assets as follows:
 - Building - 20%
 - Fixtures and fittings - 10%
- A customer who owed Sukari Ltd. Sh.10,000,000 has been declared bankrupt.
- The allowance for doubtful debts as at 31 October 2022 is to be adjusted to 5% of outstanding accounts receivable.
- Additional provision for corporate tax of Sh.25,000,000 is to be made.
- As at 31 October 2022, administrative expenses accrued amounted to Sh.7,000,000.
- The company paid the interest on debentures for the year ended 31 October 2022 on 30 November 2022.
- As at 31 October 2022, closing inventory was valued at Sh.560,000,000 at cost and Sh.480,000,000 on realisable value.
- The suspense account relates to issue of additional 100,000 ordinary shares at Sh.400.
- The company's directors propose the following:
 - Preference shares dividend be paid.
 - A dividend of 10% on the ordinary share be paid.
 - Sh.13,000,000 to be transferred to general reserves.

Required:

- Statement of profit or loss for the year ended 31 October 2022. (12 marks)
 - Statement of financial position as at 31 October 2022. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- State **FOUR** elements of financial statements. (4 marks)
 - Explain **FOUR** reasons why an organisation's statement of cash flows might be useful and reliable than its statement of profit or loss. (8 marks)
 - Argue **TWO** cases for and **TWO** cases against the use of accrual method of accounting in the public sector. (8 marks)
- (Total: 20 marks)**

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ATD LEVEL II

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

- (a) Outline four fundamental principles of the code of ethics which a professional accountant is expected to abide by while undertaking his or her duties. (4 marks)
- (b) The following trial balance was extracted from the books of account of Leah Bosibori, a sole proprietor, as at 30 September 2016:

	Dr	Cr
	Sh. "000"	Sh. "000"
Purchases and sales	240,400	396,000
Accounts receivable and accounts payable	26,000	18,000
Returns inward and returns outward	4,000	2,000
Inventory (1 October 2015)	32,000	
Carriage inwards	1,600	
Carriage outwards	2,400	
Salaries and wages	16,500	
Rates and insurance	7,200	
Rent received		7,800
Sales and distribution cost	8,600	
Bad debts written off	600	
Allowance for doubtful debts (1 October 2015)		1,300
Drawings	6,000	
Bank balance	11,000	
Capital account		315,000
Freehold land (at cost)	184,000	
Equipment (at cost)	156,000	
Motor vehicles (at cost)	100,000	
Accumulated depreciation (1 October 2015):		
• Equipment		31,200
• Motor vehicles		25,000
	<u>796,300</u>	<u>796,300</u>

Additional information:

- The following information relates to the firm as at 30 September 2016:

	Sh. "000"
• Inventory	31,800
• Accrued salaries and wages	240
• Insurance prepaid	200
• Rent received in advance	600
- A debtor had returned goods on 29 September 2016 amounting to Sh.2 million. Leah Bosibori sells goods at a uniform profit margin of 40 per cent. This transaction was totally omitted from the books of account and the goods returned were not included in the closing inventory in note (1) above.
- During the year, goods costing Sh.5 million were destroyed by fire. However, the insurance company has accepted a claim for Sh.4 million only. No record was made in respect of this transaction.
- Allowance for doubtful debts is to be maintained at 5% of the accounts receivable.
- Provision for depreciation should be provided as follows:

Asset	Rate per annum	Method
Equipment	20%	Reducing balance
Motor vehicles	25%	Straight line

Required:

- (i) Income statement for the year ended 30 September 2016. (8 marks)
- (ii) Statement of financial position as at 30 September 2016. (8 marks)

(Total: 20 marks)**QUESTION TWO**

The following is the receipts and payments account of Boresha Youth Club for the year ended 31 October 2016:

Receipts and payments account			
Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward (1 November 2015):		Rates and insurance	1,010
- Bank	600	Ground maintenance	1,020
Subscriptions	4,800	Staff salaries	2,400
Bar takings	8,000	Bar payables	6,700
Donations	1,800	Water and electricity	600
Income from investment	500	Cash refund to subscribers	10
Sale of equipment	120	Bar wages	500
		Honoraria	130
		Balance carried down (31 October 2016):	
		- Bank	3,450
	<u>15,820</u>		<u>15,820</u>

The following were the assets and liabilities of the club as at 31 October:

	2015	2016
	Sh."000"	Sh."000"
Bank balance	600	3,450
Bar inventory	600	700
Bar payables	200	300
Accrued rates	40	30
Electricity prepaid	100	80
Land at cost	1,500	1,500
Motor vehicles	4,800	3,600
Equipment	3,100	?
Investment at cost	5,000	5,000
Subscriptions in arrears	240	300
Subscriptions in advance	200	100

Additional information:

- On 1 November 2015, equipment with a net book value of Sh.100,000 was sold for Sh.120,000.
- Equipment is depreciated at the rate of 20 per cent per annum on reducing balance basis.
- Subscriptions received during the year include arrears of the year ended 31 October 2014 amounting to Sh.190,000. It is the policy of the club to write-off any arrears owing for more than one year.

Required:

- (a) Bar income statement for the year ended 31 October 2016. (3 marks)
- (b) Subscriptions account. (4 marks)
- (c) Income and expenditure account for the year ended 31 October 2016. (7 marks)
- (d) Statement of financial position as at 31 October 2016. (6 marks)

(Total: 20 marks)**QUESTION THREE**

- (a) (i) Explain the meaning of the term "intangible asset" as used in the International Accounting Standard (IAS) 38 "Intangible Assets". (2 marks)
- (ii) Outline two characteristics of intangible assets. (2 marks)

- (b) The following financial statements were extracted from the books of Afropac Limited for the years ended 30 June 2015 and 30 June 2016:

Income statement for the year ended 30 June:

	2015 Sh."000"	2016 Sh."000"
Sales (all on credit)	240,000	240,000
Cost of sales	<u>(144,000)</u>	<u>(120,000)</u>
Gross profit	96,000	120,000
Expenses	<u>(72,000)</u>	<u>(72,000)</u>
Net profit	24,000	48,000
Dividends	<u>(24,000)</u>	<u>(24,000)</u>
Retained profit	-	24,000
Retained profit brought forward	<u>30,000</u>	<u>30,000</u>
Retained profit carried forward	<u>30,000</u>	<u>54,000</u>

Statement of financial position as at 30 June:

	2015 Sh."000"	2016 Sh."000"
Non-current assets:		
Land	75,600	52,800
Plant and machinery	7,200	10,200
Building	94,800	72,000
Financial assets at fair value	<u>96,000</u>	<u>63,600</u>
	<u>273,600</u>	<u>198,600</u>
Current assets:		
Inventory	78,000	66,000
Trade receivables	<u>60,000</u>	<u>48,000</u>
	<u>138,000</u>	<u>114,000</u>
Total assets	<u>411,600</u>	<u>312,600</u>
Financed by:		
Ordinary share capital	60,000	48,000
Share premium	16,800	15,600
Revaluation reserve	24,000	-
Retained profit	30,000	54,000
10% debenture	<u>180,000</u>	<u>120,000</u>
	<u>310,800</u>	<u>237,600</u>
Current liabilities:		
Trade payables	72,000	48,000
Proposed dividends	24,000	24,000
Bank balance	<u>4,800</u>	<u>3,000</u>
	<u>100,800</u>	<u>75,000</u>
Total equity and liabilities	<u>411,600</u>	<u>312,600</u>

Assume a 365-day year.

Required:

Compute the following ratios:

- | | |
|-----------------------------------|-----------|
| (i) Current ratio. | (2 marks) |
| (ii) Quick ratio. | (2 marks) |
| (iii) Debt to equity ratio. | (2 marks) |
| (iv) Inventory turnover ratio. | (2 marks) |
| (v) Trade receivables turnover. | (2 marks) |
| (vi) Average collection period. | (2 marks) |
| (vii) Return on capital employed. | (2 marks) |
| (viii) Net profit margin. | (2 marks) |

(Total: 20 marks)

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QUESTION FOUR

- (a) Describe five components of a company's published financial statements. (5 marks)
- (b) Octopus Limited deals in designer clothes and has an authorised share capital of Sh.500 million divided into 30 million 8% preference shares and 10 million ordinary shares of Sh.10 and Sh.20 each respectively.

The following trial balance was extracted from the books of Octopus Limited as at 31 October 2016:

	Dr Sh."000"	Cr Sh."000"
Motor vehicle running expenses	59,680	
Depreciation: Fixtures and fittings	1,040	
Motor vehicles	12,520	
Selling and distribution expenses	78,840	
Salaries and wages	95,830	
Administrative costs	11,490	
Debenture interest	1,200	
Cost of sales	699,900	
Sales		1,191,800
Investment income		2,500
Preference dividend	8,000	
Tax paid	10,650	
Directors' fees	8,500	
Cash in hand	6,200	
8% debenture		30,000
Issued and paid up ordinary share capital		200,000
8% preference share capital		200,000
Bank overdraft		12,500
Inventory	214,100	
Accounts receivable	336,400	
Accounts payable		105,000
Fixtures and fittings (Net book value)	11,300	
Motor vehicles (Net book value)	24,800	
Allowance for doubtful debts		14,400
Retained profit (1 November 2015)		101,750
General reserve		60,000
Share premium		40,000
Freehold land	240,000	
Financial assets at fair value	137,500	
	<u>1,957,950</u>	<u>1,957,950</u>

Additional information:

- The following provisions for the year ended 31 October 2016 were to be made:

	Sh."000"
• Audit fees	1,400
• Directors' fees	15,000
• Allowance for doubtful debts	12,500
- The directors have recommended an ordinary dividend of Sh.1 per share.
- A final preference dividend is to be paid.
- Freehold land was professionally valued at Sh.270 million.
- Prepaid salaries amounted to Sh.300,000 as at 31 October 2016.
- Corporation tax for the year has been agreed at Sh.65,520,000.

Required:

- Income statement for the year ended 31 October 2016. (8 marks)
- Statement of financial position as at 31 October 2016. (7 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight four responsibilities of the accounting officer at the county level. (4 marks)
- (b) Define the following terms as used in public sector accounting:
- (i) Recurrent expenditure. (1 mark)
- (ii) Development expenditure. (1 mark)
- (iii) Encumbrance. (1 mark)
- (iv) Vote book. (1 mark)
- (c) Lila, Fila and Mina were partners in a food processing and retail business and shared profits and losses in the ratio 2:2:1 respectively. The following was the statement of the financial position of the partnership as at 30 September 2015:

Statement of financial position as at 30 September 2015:

Assets:	Sh.	Sh.
Non-current assets		1,395,000
Current assets:		
Inventories	882,000	
Trade receivables	<u>627,000</u>	<u>1,509,000</u>
Total assets		<u>2,904,000</u>
Capital and liabilities:		
Capital accounts:		
Lila	480,000	
Fila	420,000	
Mina	<u>600,000</u>	1,500,000
Current accounts:		
Lila	195,900	
Fila	147,000	
Mina	<u>159,000</u>	<u>501,900</u>
		2,001,900
Current liabilities:		
Bank overdraft	146,100	
Trade payables	<u>756,000</u>	<u>902,100</u>
Total capital and liabilities		<u>2,904,000</u>

Additional information:

- On 1 October 2015, Mina retired from the partnership and was to start a business as a sole trader while Lila and Fila continued in partnership.
- On retirement of Mina, the food processing business was transferred to him while Lila and Fila continued with the retail business.
The assets and liabilities transferred to Mina were as follows:

	Net book value	Transfer value
	Sh.	Sh.
Non-current assets	780,000	918,000
Inventories	498,000	471,000
Trade receivables	516,000	495,000
Trade payables	468,000	468,000

- The net amount due to (from) Mina was settled in cash.
- On retirement of Mina from the partnership, goodwill was valued at Sh.600,000 but was not to be maintained in the books of the partnership of Lila and Fila.

4. After retirement of Mina on 1 October 2015, Lila and Fila agreed on the following terms of the new partnership:
- Lila and Fila to introduce additional capital of Sh.120,000 and Sh.180,000 respectively in cash.
 - Each partner was entitled to interest on capital at the rate of 10% per annum with effect from 1 October 2015 and the balance of the profits to be shared equally after allowing for annual salaries of Sh.216,000 and Sh.180,000 to Lila and Fila respectively.
5. The profit of the new partnership before interest on capital and partner's salaries was Sh.720,000 for the year ended 30 September 2016.
6. Drawings by the partners in the year ended 30 September 2016 were Sh.255,000 and Sh.210,000 for Lila and Fila respectively.

Required:

- (i) Income statement and appropriation account for the year ended 30 September 2016. (4 marks)
- (ii) Partners' capital accounts for the year ended 30 September 2016. (4 marks)
- (iii) Partners' current accounts for the year ended 30 September 2016. (4 marks)

(Total: 20 marks)

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ATD LEVEL III
PILOT PAPER
FINANCIAL ACCOUNTING

December 2021.

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) Explain two differences between:
- (i) Receipts and payments account and income and expenditure account. (4 marks)
 - (ii) Debentures and equity shares. (4 marks)
- (b) Outline six features of a good accounting software (6 marks)
- (c) Discuss three functions of accounting (6 marks)
- (Total:20 marks)**

QUESTION TWO

The following balances were extracted from the books of Vijana Youth Club for the year ended 30 June 2020:

	Sh. "000"
Land at cost	90,000
Equipment (cost Sh.25,000,000)	20,000
Furniture and fittings (cost Sh.80,000,000)	46,000
Bar inventory	18,400
Subscriptions in arrears	5,000
Bank balance	4,500
Long term balance bank deposits	12,000
Long term loan	96,000
Bar creditors	16,800
Subscriptions in advance	1,600
Accrued bar wages	2,300

The clubs' receipts and payments account for the year ended 30 June 2021 was as follows:

Receipts and payments

	Sh. "000"		Sh. "000"
Balance brought forward	4,500	Bar wages	151,200
Subscription received	136,000	Rates	20,000
Competition entries	29,600	Loan repayments	39,200
Bar sales	332,000	Bar expenses	58,400
		Competition ticket cost	20,800
		Bar purchases	149,400
		Equipment purchases	14,000
		Transfer to long term deposit account	20,000
		Balance carried forward	29,100
	502,100		502,100

Additional information:

- The following information relates to the club as at 30 June 2021:

	Sh. "000"
Subscriptions in arrears	4,000
Bar creditors	16,000
Bar inventory	19,800
Subscription in advance	2,400
Bar wages due	3,200
- Interest receivable on long term deposits amounted to Sh.2,200,000
- The long-term loan is repaid in annual instalments of Sh.30,000,000 excluding interest.
- The interest for the year ended 30 June 2021 was Sh.9,200,000

Depreciation is provided as follows;

Asset	Rate per annum	Method
Equipment	10%	Straight line
Furniture and fittings	15%	Reducing balance

It is the policy of the club to charge a full year's depreciation on assets in the year of purchase and no depreciation in the year of disposal.

Required:

- Bar statement of profit or loss for the year ended 30 June 2021. (4 marks)
- Statement of income and expenditure for the year ended 30 June 2021. (8 marks)
- Statement of financial position as at 30 June 2021. (8 marks)

QUESTION THREE

The following trial balance was extracted from the books of Asubuhi Enterprises Ltd. as at 30 June 2021.

	Sh. "000"	Sh. "000"
Freehold property at cost	25,000	
Plant at cost	26,000	
Accumulated depreciation on plant		12,400
Motor vehicles at cost	10,600	
Accumulated depreciation on motor vehicles		6,100
Fixtures and fittings at cost	7,941	
Accumulated depreciation on fixtures and fittings		2,358
Discounts received		493
15% debentures		20,000
Raw materials purchased	183,476	
Sales		244,925
Sundry expenses	5,830	
Bank charges	585	
Marketing expenses	4,609	
Advertising expenses	1,716	
Sales returns	269	
Raw material purchases returns		634
Salaries	18,000	
Plant maintenance	2,194	
Lighting and heating	3,256	
Factory power	4,512	
Factory wages	21,674	
Rates and Insurance	1,986	
Bad debts	1,700	
Allowance for bad debts		2,245
Share capital -1,000,000 ordinary shares of Sh.50 each		50,000
General reserve		44,000

Revenue reserve (Unappropriated profits)		881
Interim dividend paid	3,200	
Cash at bank	6,714	
Accounts receivable and accounts payable	26,409	11,647
Inventories at 1 July 2020- Raw materials	6,811	
Work in progress	11,532	
Finished goods	<u>21,669</u>	
	<u>395,683</u>	<u>395,683</u>

Additional Information

- Freehold property includes land at a cost of Sh.15,000,000. The balance is for the cost of buildings.
- Buildings are to be depreciated using the straight-line method over a fifty-year period commencing 1 July 2020. This expense is considered to be a factory overhead.
- Depreciation is to be provided on a reducing balance basis as follows:

Asset	Rate per annum
Plant	15%
Motor vehicles	25%
Fixtures and Fittings	10%

Only plant depreciation is charged to the factory. The other depreciation charges are considered administrative expenses.

- Allowance for doubtful debts is to be adjusted to 8% of the accounts receivable.
- The following expenses are to be apportioned in the ratio 4:1 between factory and administrative overheads:
 - Lighting and heating
 - Risks and Insurance
 - Sundry expenses
- An amount of Sh. 6,000,000 included in the factory wages account is the factory manager's salary.
- The directors wish to provide for a final dividend which will bring the dividend for the year up to Sh.5 per share.
- Debenture interest for the current year has not yet been paid.
- Some finished goods which cost Sh. 541,000 have been sold to a customer at an additional profit margin of Sh. 57,000 but the customer has indicated that he intends to return them since they are not what he ordered. This sale was a credit sale and has been included in the accounts receivable.
- As at 30 June 2021:
 - Lighting and heating accrued was Sh.154,000.
 - Insurance prepaid was Sh. 48,000.
 - Rates prepaid was Sh.150,000.
- Inventories as at 30 June 2021 were valued at:

	Sh."000"
• Raw materials	27,851
• Work in progress	16,490
• Finished goods	24,627

Required:

- Manufacturing account for the year ended 30 June 2021. (10 marks)
- Statement of profit or loss for the year ended 30 June 2021. (10 marks)

(Total: 20 Marks)

QUESTION FOUR

- (a) Outline five challenges that could be faced by government and other public entities in implementation of International Public Sector Accounting Standards (IPSASs). (5 marks)
- (b) Esther operates a general supplies shop but does not maintain a full set of accounting records.

The following information was extracted from her records:

Summary of bank account for the year ended 31 July 2021:

Receipts	Sh. "000"
Balance (1 August 2020)	3,940
Additional capital	40,000
Cash from trade receivables	192,000
Proceeds on sale of motor vehicle (van)	<u>4,200</u>
	<u>240,140</u>
Payments	
Rent and rates	5,200
Salaries and wages	30,200
Payment to suppliers	144,000
Purchases of motor vehicle (Lorry)	26,000
Personal drawings	18,400
Insurance	1,600
Postage and stationery	2,720
Repairs and Maintenance	1,300
Motor vehicle running expenses	6,700
Balance (31 July 2021)	<u>4,020</u>
	<u>240,140</u>

Additional information:

1. The following balances were provided:

	1 August 2020	31 July 2021
	Sh. "000"	Sh. "000"
Trade payables	9,400	5,180
Trade receivables	14,640	19,000
Accrued rent and rates	400	520
Motor vehicles:		
Van - cost	20,000	-
Depreciation	16,000	-
Lorry - Cost	-	26,000
Depreciation	-	?
Prepaid insurance	320	400
Inventory	9,800	11,800

2. Esther depreciates motor vehicles at the rate of 20% per annum on a straight-line basis. A full year's depreciation is provided in the year of purchase and no depreciation is charged in the year of disposal.
3. All receipts are banked and all payments are made from the business bank account.
4. Discount received from the suppliers during the year amounted to Sh.2,200,000.
5. A trade receivable of Sh.600,000 owed by Beba Beba Enterprises and included in the trade receivables as at 31 July 2021 is to be written off.

Required:

- (i) Statement of profit or loss for the year ended 31 July 2021. (8 marks)
- (ii) Statement of financial position as at 31 July 2021 (7 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) State three reasons why organizations provide for depreciation while measuring the profits of the business. (6 marks)
- (b) The following financial statements relate to Alpha Ltd. for the years ended 31 March 2019 and 2020.

	2019	2020
	Sh. Million	Sh. Million
Ordinary shares of Sh. 10 each	5,000	6,000
Share premium	1,000	1,500
General reserve	400	500
Retained earnings	960	1,058
10% debentures	2,850	2,850
Accounts payable	700	800
Corporation tax	198	200
Dividend payable	300	450
Bank overdraft	—	<u>1,050</u>
	11,408	14,408
Non-current assets:		
Property, plant and equipment	9,012	9,408
Current assets:		
Inventory	946	1,948
Accounts receivable	1,000	3,052
Bank balance	<u>450</u>	-
	<u>11,408</u>	<u>14,408</u>

The income statement for the year ended 31 March 2020:

	Sh. Million
Sales	9,500
Cost of sales	<u>6,650</u>
Gross profit	2,850
Administrative expenses	800
Sales and distribution cost	625
Financial cost	<u>285</u>
Profit before tax	1,140
Corporation tax	<u>342</u>
Profit after tax	<u>798</u>

Additional information

- Proposed dividend amounted to Sh.600 million.
- An equipment with a net book value of Sh.112million was sold for Sh.92 million.
- A new machine was purchased for Sh.800 million.

Required

Statement of cash flows for the year ended 31 March 2020 as per International Accounting Standard (IAS)7 (Statement of Cash Flows).

(14 marks)

(Total: 20 marks)



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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 4 April 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

The following trial balance was extracted from the books of Huruma Ltd. 31 December 2021:

	Sh. "000"	Sh. "000"
10% preference share capital		200,000
Ordinary share capital		700,000
10% loan note		300,000
Goodwill (at cost)	255,000	
Buildings (at cost)	1,050,000	
Equipment (at cost)	120,000	
Motor vehicle (at cost)	172,000	
Accumulated depreciation:		
Building		100,000
Equipment		24,000
Motor vehicle		51,600
Inventory (1 January 2021)	4,912	
Sales		1,022,000
Purchases	519,100	
Carriage inwards	6,200	
Salaries and wages	192,400	
Directors' remuneration	123,000	
Motor vehicle running expenses	3,120	
Business rates and insurance	8,690	
General expenses	5,600	
Loan note interest	15,000	
Accounts receivable	217,600	
Accounts payable		113,700
Bank	8,390	
General reserve		50,000
Share premium account		100,000
Interim dividend paid - ordinary shareholders	3,500	
Retained earnings brought forward		43,212
	<u>2,704,512</u>	<u>2,704,512</u>

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Additional information:

- Inventory as at 31 December 2021 was valued at Sh.91,423,000.
- The directors proposed a payment of final dividends to the ordinary shareholders of Sh.2,000,000 to the preference shareholders.
- Depreciation is to be provided per annum as follows:

Asset	Basis
Motor vehicle	10% on reducing balance
Building	2.5% on cost
Equipment	15% on reducing balance
- The directors also proposed that Sh.10,000,000 be transferred to the general reserve.
- During the year ended 31 December 2021, an allowance of Sh.45,000,000 was made for corporate tax.

6. During the year ended 31 December 2021, an impairment review was undertaken in respect of the goodwill. It was discovered that the goodwill had been impaired by Sh.5,000,000.
7. A difference in the books of Sh.1,200,000 that had been written off to general expenses during the year was later found to have been due to the following errors:
- Sales returns of Sh.1,800,000 had been debited to sales, but was omitted from the customers account.
 - The purchase journal had been undercast by Sh.3,000,000.

Required:

- (a) Statement of profit or loss for the year ended 31 December 2021. (12 marks)
- (b) Statement of financial position as at 31 December 2021. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the function of each of the following organs in the management of government finances:
- (i) Public accounts committee. (2 marks)
- (ii) Committee of ways and means. (2 marks)
- (b) An extract from the statement of financial position of Left Ltd. as at 31 October 2021 was as follows:

	Sh. "000"
Ordinary shares of Sh.100 each	200,000
12% redeemable preference shares of Sh.100 each	120,000
Share premium	40,000
Revaluation reserve	30,000
Retained earnings	<u>130,000</u>
	<u>520,000</u>

Additional information:

On 1 November 2021, a resolution was passed by the directors to redeem half of the redeemable preference shares at a premium of 15%. The premium on redemption is to be financed from the existing share premium account, while the nominal amount was financed as follows:

1. 250,000 ordinary shares of Sh.100 each at a premium of Sh.20 per share payable for in full on application. The shares were issued to the public and 280,000 applications were received. Any excess monies received were returned to the applicants.
2. The difference in the nominal amount was drawn from the retained earnings.

Required:

- (i) Journal entries to record the above transactions. (5 marks)
- (ii) An extract of the amended statement of financial position as at 30 November 2021. (1 mark)
- (c) You are the accountant of Tayari Ltd. In preparing the company accounts for the year ended 31 December 2021, you are faced with the following problems due to Covid-19 pandemic:
1. The company owns some shares in a quoted company which the shareholders think are worthless.
 2. A debtor who owes a large amount to the company is rumoured to be going into liquidation.
 3. The company had a poor trading year and the owners believe that a more balanced result could be presented if a last-in-first-out (LIFO) inventory valuation method was adopted instead of the present first-in-first-out (FIFO) method.
 4. During the year the company purchased Sh.100,000 worth of face masks for the employees use. These were still in use as at year end.
 5. All the non-current assets of the company might now cost more than they did at the time they were purchased.

Required:

Explain how you would treat each of the above cases and justify each treatment with an accounting concept.

(10 marks)
(Total: 20 marks)

QUESTION THREE

Lilly, Amanda and Ken are in partnership sharing profits and losses in the ratio 2:2:1.

The following is their trial balance as at 31 December 2021:

	Sh. "000"	Sh. "000"
Lands and buildings	1,020,000	
Plant and equipment	16,400	
Accumulated depreciation (1 January 2021):		
Buildings		100,000
Plant and equipment		8,400
Accounts receivable and accounting payable	116,800	53,180
Bank balance	12,260	
Inventory (1 January 2021)	125,480	
Purchases and sales	420,000	720,222
Distribution costs	6,820	
Insurance	1,240	
Finance cost	7,800	
Administrative expenses	9,520	
Salaries and wages	115,618	
Bad debts	464	
Bank loan		130,000
Capital accounts:		
Lilly		400,000
Amanda		350,000
Ken		200,000
Current accounts:		
Lilly		8,200
Amanda		2,400
Ken		-
Drawings:		
Lilly	63,600	
Amanda	56,400	
	<u>1,972,402</u>	<u>1,972,402</u>

Additional information:

- Inventory as at 31 December 2021 was valued at Sh.148,420,000.
- Land and buildings were acquired a few years ago. The buildings were valued at Sh.420,000,000.
- Depreciation is to be charged per annum as follows:

Asset	Rate
Buildings	- 2½% per annum on cost
Plant and equipment	- 15% per annum on reducing balance basis
- No entries have been made in the books for sales on credit amounting to Sh.6,000,000 on 20 December 2021. Payment for the goods was received on 3 January 2022.
- The partners agreed to the following:
 - Lilly is to be paid a salary of Sh.5,000,000 per month.
 - Interest on drawings to be charged as follows: Lilly Sh.1,800,000 and Amanda Sh.1,200,000.
 - To allow interest on capital account balances at 5% per annum.

Required:

- Statement of profit or loss and appropriation account for the year ended 31 December 2021. (10 marks)
 - Partners' current accounts. (4 marks)
 - Statement of financial position as at 31 December 2021. (6 marks)
- (Total: 20 marks)

QUESTION FOUR

Harold Nema does not employ a full time accountant to maintain his books of account. He has appointed you as his accountant to extract his financial statements for the year ended 31 October 2021.

The following information has been availed to you:

Harold Nema
Statement of financial position as at 31 October 2021

	Cost Sh."000"	Accumulated depreciation Sh."000"	Net book value Sh."000"
Non-current assets			
Plant and equipment	3,160	1,540	1,620
Motor vehicles	750	400	350
Furniture and fittings	<u>280</u>	<u>140</u>	<u>140</u>
	<u>4,190</u>	<u>2,080</u>	2,110
Current assets			
Inventory		480	
Accounts receivable		1,512	
Prepayments		52	
Cash in hand		<u>5</u>	<u>2,049</u>
			<u>4,159</u>
Financed by:			
Capital		1,000	
Retained earnings		<u>800</u>	1,800
Current liabilities:			
Accounts payable		2,046	
Bank overdraft		228	
Accrued expenses		<u>85</u>	<u>2,359</u>
			<u>4,159</u>

The summary of his bank transactions for the year ended 31 October 2021 was as follows:

Bank account			
Receipts	Sh."000"	Payments	Sh."000"
Receipts from debtors	18,071.8	Balance brought forward	228
		Payment to suppliers	11,424.3
		General expenses paid	1,597
		Salaries paid	3,512
		Telephone and internet	200
		Harold Nema's salary	416
		Purchase of van	110
		Balance carried forward	<u>584.5</u>
	<u>18,071.8</u>		<u>18,071.8</u>

Additional information:

- Accounts receivable and accounts payable as at 31 October 2021 were Sh.1,842,300 and Sh.2,391,800 respectively.
- As at 31 October 2021, accrued expenses amounted to Sh.63,300 and pre-paid expenses amounted to Sh.31,300.
- The percentage of gross profit margin has remained reasonably static in recent years at 50%.
- Harold Nema drew Sh.2,000 per week from the cash float held by the cashier except during his two-week annual holiday.
- Office expenses amounting to Sh.160,000 and miscellaneous expenses amounting to Sh.15,000 were paid from the cash float during the year.
- Cash in hand as at 31 October 2021 was Sh.9,400.
- Bad debts amounting to Sh.49,000 were written off during the year ended 31 October 2021.
- An allowance of 5% of the accounts receivable is to be maintained for doubtful debts.
- Depreciation is to be provided as follows:

Assets	Rate per annum
Plant and equipment	15% on reducing balance
Motor vehicles	20% on straight line
Furniture and fittings	10% on straight line

Required:

- (a) Statement of profit or loss for the year ended 31 October 2021. (12 marks)
- (b) Statement of financial position as at 31 October 2021. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Outline four types of intangible assets. (4 marks)
- (b) The following information was extracted from the books of Paulo Ltd. for the year ended 31 December 2021:

	Sh. "000"
1. Net profit before income tax after considering the following items:	6,134
• Depreciation on property, plant and equipment	1,612
• Discount on issue of debentures written off	112
• Interest on debentures paid	1,008
• Profit on sale of investments	30
• Interest received on investments	140
• Compensation received in a lawsuit (operating activities)	224
2. Income tax paid during the year	3,080
3. Book value of investments sold	686
4. Nominal value of preference shares redeemed at a premium of 5%	4,200
5. Nominal value of ordinary shares issued for cash at a premium of 20%	1,400
6. Dividends paid for the financial year ending 31 December 2020	1,680
7. Interim dividends paid for the year ending 31 December 2021	560
8. Land and buildings purchased (payment made by way of 112,000 ordinary shares of Sh.10 each, issued at a premium of 20%).	
9. Current assets and liabilities as at 31 December:	

	2020	2021
	Sh."000"	Sh."000"
Inventory	3,480	3,810
Accounts receivable	780	768
Cash in hand	154	370
Cash at bank	524	704
Accounts payable	632	622
Outstanding expenses	204	234
Bank overdraft	100	300

Required:

Statement of cash flows for the year ended 31 December 2021, in accordance with the requirements of International Accounting Standards (IAS) 7, "Statement of cash flows". (16 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

WEDNESDAY: 15 December 2021.

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 reasons why an organisation might provide depreciation for its non-current assets. (4 marks)
- (b) Describe four qualities of useful financial information. (8 marks)
- (c) Ofisi Ltd. is an entity that manufactures and retails office supplies.

Its summarised financial statements for the years ended 30 April 2020 and 30 April 2021 are as set out below:

Ofisi Limited

Statement of profit or loss for the year ended 30 April:

	2020	2021
	Sh. "000"	Sh. "000"
Sales	695,900	835,000
Cost of sales	<u>(452,000)</u>	<u>(630,495)</u>
Gross profit	243,900	204,505
Operating expenses	(102,570)	(96,870)
Finance costs	<u>(8,400)</u>	<u>(6,000)</u>
Profit before tax	132,930	101,635
Income tax expense	<u>(39,780)</u>	<u>(30,480)</u>
Profit for the year	<u>93,150</u>	<u>71,155</u>

Ofisi Ltd.

Statement of financial position as at 30 April:

	2020	2021
	Sh. "000"	Sh. "000"
Assets:		
Non-current assets	204,840	305,750
Current assets:		
Inventory	53,250	65,640
Trade receivables	123,930	251,670
Bank	<u>57,240</u>	-
Total assets	<u>439,260</u>	<u>623,060</u>
Equity and liabilities:		
Equity		
Ordinary share capital	60,000	60,000
Share premium	12,000	12,000
Revaluation reserve	-	30,000
Retained earnings	<u>172,450</u>	<u>225,695</u>
Total equity	244,450	327,695
Non-current liabilities:		
Bank loan	50,000	37,000
Current liabilities:		
Trade payables	107,750	207,280
Bank overdraft	-	18,120
Current tax	<u>37,060</u>	<u>32,965</u>
Total equity and liabilities	<u>439,260</u>	<u>623,060</u>

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Required:

Calculate the following ratios for the two years ended 30 April 2020 and 30 April 2021:

- (i) Gross profit margin. (2 marks)
- (ii) Return on capital employed. (2 marks)
- (iii) Interest coverage ratio. (2 marks)
- (iv) Debt to equity ratio. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Highlight four contents of a partnership deed. (4 marks)
- (b) Rudi Ltd. has presented the following financial statements:

Statement of financial position as at 30 June:

	2021	2020
	Sh."000"	Sh."000"
Non-current assets:		
Cost	21,600	17,850
Accumulated depreciation	<u>(10,200)</u>	<u>(8,700)</u>
	11,400	9,150
Patent	7,500	6,000
Investments	-	750
	<u>18,900</u>	<u>15,900</u>
Current assets:		
Inventory	4,500	3,060
Accounts receivable	11,700	9,450
Short term investments	1,500	-
Cash in hand	<u>60</u>	<u>30</u>
Total assets	<u>36,660</u>	<u>28,440</u>
Equity and liabilities:		
Equity		
Ordinary shares at Sh.20 each	6,000	4,500
Share premium	4,800	4,500
Revaluation reserve	3,000	2,730
Revenue reserve	<u>7,800</u>	<u>5,400</u>
Total equity	21,600	17,130
Non-current liabilities:		
12.5% debentures	5,100	1,500
Current liabilities:		
Accounts payable	3,810	3,570
Bank overdraft	2,550	2,940
Corporation tax	<u>3,600</u>	<u>3,300</u>
Total capital employed	<u>36,660</u>	<u>28,440</u>

Income statement for the year ended 30 June 2021:

	Sh."000"
Revenue	76,590
Cost of sales	<u>(54,420)</u>
Gross profit	22,170
Distribution cost	<u>(3,750)</u>
Administration costs	<u>(7,920)</u>
Finance cost (interest paid)	<u>(2,250)</u>
	8,250
Add: Investment income (interest)	<u>750</u>
Profit before tax	9,000
Less: Corporation tax	<u>(4,200)</u>
	<u>4,800</u>

Additional information:

1. Proceeds from the sale of investments amounted to Sh.900,000.
2. During the year ended 30 June 2021, some items of non-current assets that had cost Sh.2,550,000 and had a net book value of Sh.1,350,000 were disposed of for Sh.960,000.
3. During the year ended 30 June 2021, dividends amounting to Sh.2,400,000 was paid.
4. During the year ended 30 June 2021, 75,000 ordinary shares were issued at Sh.24 per share.

Required:

Statement of cash flows for year ended 30 June 2021 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(16 marks)

(Total: 20 marks)**QUESTION THREE**

- (a) (i) Explain the term "unrealised profit" as used in manufacturing accounts. (2 marks)

- (ii) Highlight the accounting treatment of unrealised profit in the following situations:

- Creation of unrealised profit account. (1 mark)
- Increase in provision of unrealised profit. (1 mark)
- Decrease in provision of unrealised profit. (1 mark)

- (b) The following information was extracted from the books of Barakoa Manufacturers Ltd., a surgical mask manufacturing company as at 30 June 2021:

	Sh."000"	Sh."000"
Factory building	152,628	
Machinery at cost	267,000	
Equipment at cost	102,000	
Inventories as at 1 July 2020:		
• Raw materials	34,620	
• Work-in-progress	23,670	
• Finished goods	47,040	
Manufacturing wages	140,790	
Purchase of raw materials	259,500	
Indirect wages	137,040	
Factory power	46,020	
Heating and lighting	64,020	
Accumulated depreciation (1 July 2020):		
• Machinery		36,720
• Equipment		55,500
Sales		1,275,000
Royalties	16,800	
Administrative wages	54,300	
Rent and rates	31,200	
Allowance for unrealised profits as at 1 July 2020		9,408
	<u>1,376,628</u>	<u>1,376,628</u>

Additional information:

1. Inventories as at 30 June 2021 were valued as follows:

Sh."000"

- | | |
|--------------------|--------|
| • Raw materials | 27,936 |
| • Work-in-progress | 16,260 |
| • Finished goods | 49,500 |
2. Heating and lighting was apportioned to the factory and the office in the ratio of 2:1 respectively.
 3. Factory profit is calculated at a rate of 25% of production costs.
 4. The following balances were provided as at 30 June 2021:

• Accrued indirect wages	Sh.3,750,000
• Prepaid rent and rates	Sh.1,260,000
 5. Rent and rates were apportioned to the factory and the office in the ratio of 3:2 respectively.

6. Non-current assets are depreciated as follows:
- Machinery 15% straight line
 - Equipment 10% reducing balance

Required:

Manufacturing account and statement of profit or loss for the year ended 30 June 2021.

(15 marks)

(Total: 20 marks)

QUESTION FOUR

1. Jacky Neno operates a children's clothes shop. She does not maintain proper accounting records. The following information was extracted from her records for the year ended 30 September:

	30 September 2020	30 September 2021
	Sh."000"	Sh."000"
Motor vehicles at cost	6,000	?
Accumulated depreciation on motor vehicles	2,400	?
Inventory	2,800	3,200
Accrued rent	50	80
Accounts receivable	2,400	3,200
Accounts payable	1,100	800
Prepaid insurance	40	60
Accrued salaries	80	60

2. The summary of her bank transactions for the year ended 30 September 2021 was as follows:

Bank account			
	Sh."000"		Sh."000"
Balance brought forward	460	Drawings	560
Cash from receivables	13,314	Stationery and packaging	320
Sale of motor vehicle	540	Motor vehicle expenses	280
Sale of personal assets	3,500	Salaries	1,680
		Rent expenses	240
		Payments to suppliers	12,600
		Purchase of furniture	1,400
		Insurance	100
		Repairs	84
		Balance carried forward	550
	<u>17,814</u>		<u>17,814</u>

3. Discounts received during the year amounted to Sh.250,000.
4. During the year ended 30 September 2021, a debtor who owed Sh.60,000 was declared bankrupt. This bad debt is to be written off.
5. Proceeds from the sale of the personal assets was capitalised.
6. Depreciation is to be provided as follows:
- Motor vehicle – 10% per annum on a straight line basis
 - Furniture – 10% on a reducing balance basis.
7. The vehicle disposed of during the year had cost Sh.800,000 and had an accumulated depreciation of Sh.300,000. No depreciation is charged on year of disposal.
8. Cash sales not banked amounted to Sh.1,500,000 and Sh.900,000 was used to pay general expenses in cash.

Required:

- (a) Statement of profit or loss for the year ended 30 September 2021. (10 marks)
- (b) Statement of financial position as at 30 September 2021. (10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the following terms as used in public sector accounting:
- (i) Commitment accounting. (2 marks)
 - (ii) Fund accounting. (2 marks)
 - (iii) Revolving fund. (2 marks)
- (b) The following are the balances of assets and liabilities extracted from the books of Yellow Sports Club as at 30 June 2020 and 30 June 2021:

	2020 Sh. "000"	2021 Sh. "000"
Sports pavilion at cost	8,000	8,000
Furniture and fittings	6,000	?
Gym equipment at cost	10,000	?
Subscription received in advance	800	1,500
Subscription in arrears	1,400	1,800
Prizes and other trophies	240	420
Coach's fees outstanding	300	450
Insurance prepaid	360	480
Accumulated depreciation - Sports pavilion	2,000	?
- Furniture and fittings	1,200	?
- Gym equipment	400	?

The club's receipts and payments account for the year ended 30 June 2021 was as follows:

Receipts and payments account			
	Sh. "000"		Sh. "000"
Fixed deposit account	4,000	Competition expenses	2,180
Bank balance	2,200	Purchase of trophies	1,200
Subscriptions	14,000	Coach's fees	5,200
Tickets for competition	4,000	Honoraria to committee	2,400
Income from gym	8,000	Gym expenses	2,000
Sale of furniture	800	Purchases of gym equipment	4,000
Interest on fixed deposit	480	Insurance	1,100
		Purchase of furniture	2,000
		Salaries and wages	2,400
		Transfer to fixed deposit account	6,000
		Bank balance	5,000
	<u>33,480</u>		<u>33,480</u>

Additional information:

- 80% of the subscriptions in arrears as at 1 July 2020 were received during the year ended 30 June 2021.
- The furniture sold during the year ended 30 June 2021 had cost Sh.1,600,000 with an accumulated depreciation of Sh.1,000,000.
- Depreciation is to be provided on cost of assets as follows:

Asset	Rate per annum
Sports pavilion	5%
Furniture and fittings	12.5%
Gym equipment	10%

Required:

- Income and expenditure account for year ended 30 June 2021.
- Statement of financial position as at 30 June 2021.

(8 marks)

(6 marks)

(Total: 20 marks)



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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 30 August 2021.

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) Explain the following accounting concepts:

- (i) Substance over form concept. (2 marks)
- (ii) Prudence concept. (2 marks)
- (iii) Consistency concept. (2 marks)

(b) The following information relates to Uzima Club for the year ended 30 June 2021:

1. The club started the year with Sh.4,780,000 in the bank.
2. The club's treasurer received subscriptions amounting to Sh.3,171,000. This amount included Sh.301,000 in arrears for the year ended 30 June 2020 and Sh.399,000 in advance for the year ending 30 June 2022.
3. During the year ended 30 June 2021, the club received Sh.980,000 to the general fund and Sh.880,000 to the election fund. The election fund had a balance of Sh.150,000 as at 1 July 2020. During the year ended 30 June 2021, election expenses paid amounted to Sh.720,000.
4. The club held investments valued at Sh.2,000,000 on 1 July 2020. Half of these investments were sold for Sh.1,750,000 and the balance were valued at Sh.1,200,000. These investments generated an interest income of Sh.364,000 during the year ended 30 June 2021. This income was received directly in to the club's bank account.
5. Office furniture was valued at Sh.1,800,000 as at 1 July 2020. Additional furniture was acquired during the year and Sh.170,000 was paid for while Sh.70,000 was still owing for this furniture as at 30 June 2021. Depreciation on office furniture is provided at the rate of 10% per annum on cost.
6. During the year ended 30 June 2021, there was a receipt of Sh.750,000 for sale of magazines. Magazines worth Sh.60,000 were donated to various libraries during the year. The total amount paid for production and sale of the magazines was Sh.1,200,000. No inventories of magazines were left as at 30 June 2021.
7. During the year, the club acquired an office building through a bank loan. The club paid the first instalment of loan repayment of Sh.80,000 on 20 June 2021.
8. The office building was painted and partitioned at a total cost of Sh.507,000. As at 30 June 2021, an amount of Sh.150,000 of the cost of partitioning was still owing to the suppliers.
9. Other payments made by the club during the year:

	Sh.
Wages	1,700,000
Office salaries	2,350,000
Rent and rates	1,450,000
Meeting expenses	1,750,000
Stationery and postage	150,000

10. Accruals for the year ended 30 June 2021 were:

	Sh.
Wages	50,000
Rent and rates	5,000

11. Prepayment for the year ended 30 June 2021:

	Sh.
Meeting expenses	300,000

Required:

Receipts and payments account for the year ended 30 June 2021.

(14 marks)

(Total: 20 marks)

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QUESTION TWO

- (a) Distinguish between “direct method” and “indirect method” of cash flow statement preparation. (4 marks)
- (b) The following are the statements of financial position of Pambaza Ltd., a chemical manufacturing company for the year ended 31 December 2019 and 31 December 2020:

Pambaza Ltd.
Statement of financial position as at 31 December:

	2020	2019
	Sh.“000”	Sh.“000”
Non-current assets:		
Property, plant and equipment	<u>23,040</u>	<u>17,730</u>
Total non-current assets	<u>23,040</u>	<u>17,730</u>
Current assets:		
Inventories	6,210	5,490
Accounts receivable	3,510	3,060
Cash and cash equivalents	<u>225</u>	<u>504</u>
Total current assets	<u>9,945</u>	<u>9,054</u>
Total assets	<u>32,985</u>	<u>26,784</u>
Equity and liabilities:		
Equity:		
Share capital	1,080	900
Share premium	270	225
Retained earnings	17,091	10,809
Revaluation reserve	<u>540</u>	<u>360</u>
Total equity	<u>18,981</u>	<u>12,294</u>
Non-current liabilities:		
Long-term loan	<u>6,750</u>	<u>7,200</u>
Total non-current liability	<u>6,750</u>	<u>7,200</u>
Current liabilities:		
Accounts payable	6,624	6,750
Bank overdraft	180	270
Current tax	<u>450</u>	<u>270</u>
Total current liabilities	<u>7,254</u>	<u>7,290</u>
Total equity and liabilities	<u>32,985</u>	<u>26,784</u>

Additional information:

- Pambaza Ltd. made a profit before tax of Sh.6,729,000 during the year ended 31 December 2020.
- The income tax expense for the year ended 31 December 2020 was Sh.189,000.
- It is the policy of Pambaza Ltd. to depreciate all assets at a rate of 10% per annum on cost with a pro-rata charge in the year of acquisition and disposal.
- The cost of property, plant and equipment was Sh.21,870,000 on 1 January 2020. The purchase of new equipment occurred on 31 December 2020.
- Pambaza Ltd. disposed of a plant with a carrying value of Sh.1,560,000 on 1 October 2020. The original cost of this plant was Sh.2,400,000 and the company made a loss of Sh.60,000.
- The finance cost incurred and paid in the year ended 31 December 2020 was Sh.144,000.
- Paid a dividend of Sh.258,000 in the year ended 31 December 2020.

Required:

Statement of cash flows for the year ended 31 December 2020 in accordance with the requirements of International Accounting Standard (IAS)7 “Statement of Cash Flows”.

(16 marks)

(Total: 20 marks)

QUESTION THREE

Dan and Lucy are partners sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for Lucy to receive a salary of Sh.8 million per annum. Interest on capital is allowed at the rate of 5% per annum.

Their statement of financial position as at 31 July 2020 was as follows:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Non-current assets:			
Premises	48,000	6,400	41,600
Equipment	<u>16,000</u>	<u>9,600</u>	<u>6,400</u>
	<u>64,000</u>	<u>16,000</u>	48,000
Current-assets:			
Inventory		11,200	
Accounts receivable		4,400	
Cash		<u>800</u>	<u>16,400</u>
			<u>64,400</u>
Capital and liabilities:			
Capital accounts: Dan		32,000	
Lucy		<u>20,000</u>	52,000
Current accounts: Dan		6,400	
Lucy		<u>(600)</u>	5,800
Current liabilities:			
Accounts payable			<u>6,600</u>
			<u>64,400</u>

Additional information:

- On 1 November 2020, Pendo was admitted to the partnership. The terms of her admission were as follows:
 - Interest on capital was raised from 5% per annum to 6% per annum for all partners.
 - Pendo introduced Sh.24 million in cash as capital into the partnership.
 - Pendo received a salary of Sh.12 million per annum. Lucy's salary was raised to Sh.12 million per annum.
 - The profit sharing ratio for Dan, Lucy and Pendo was adjusted to 4:2:1 respectively.
- The profit for the year ended 31 July 2021 was Sh.111,570,000.
- As at 31 July 2021, the working capital of the partnership was as follows:

	Sh. "000"
Inventory	25,110
Accounts receivable	7,000
Cash	17,260
Accounts payable and accruals	6,960

- Partners' drawings for the year ended 31 July 2021 were as follows:

	Sh. "000"
Dan	51,410
Lucy	39,050
Pendo	16,500

- The non-current assets are to be depreciated as follows:

Asset	Rate per annum
Premises	5% on cost
Equipment	10% on cost

Required:

- Statement of profit or loss and appropriation account for the year ended 31 July 2021. (10 marks)
 - Partners' current accounts. (4 marks)
 - Statement of financial position as at 31 July 2021. (6 marks)
- (Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Guru Ltd. on 31 December 2020:

	Sh. "000"	Sh. "000"
Land	1,500	
Buildings at cost	8,000	
Plant and equipment at cost	9,200	
Investments (Interest rate 10% per annum)	1,500	
Accumulated depreciation (1 January 2020):		
Buildings		3,480
Plant and equipment		2,150
Purchases and sales	5,500	12,920
Inventory (1 January 2020)	390	
Bad debts written off	235	
Distribution expenses	1,160	
Administrative expenses	2,410	
Investment income		75
Ordinary share capital		6,000
Share premium		550
Retained earnings		1,030
General reserve		2,405
6% debentures		4,000
Accounts receivable and accounts payable	2,000	735
Allowance for doubtful debts		300
Debenture interest	120	
Bank and cash	580	
Dividends paid	<u>1,050</u>	
	<u>33,645</u>	<u>33,645</u>

Additional information:

- Inventory as at 31 December 2020 was valued at Sh.420,500.
- Depreciation is to be charged as follows:
Buildings - 5% per annum on cost
Plant and equipment - 10% per annum on a reducing balance basis
- The following were the balances as at 31 December 2020:

	Sh.
Accrued distribution expenses	75,000
Pre-paid administrative expenses	40,000
- Allowance for doubtful debts is to be adjusted to 5% of the accounts receivable as at 31 December 2020.
- A half year debenture interest is outstanding.
- Investment income amounting to Sh.75,000 was received during the year ended 31 December 2020. The balance of the investment income was received in February 2021.
- The estimated income tax for the year is Sh.925,000.
- The management provides for a transfer of Sh.200,500 to the general reserve.

Required:

- Statement of profit or loss for the year ended 31 December 2020. (12 marks)
 - Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Outline five challenges that could be faced by government and other public entities in implementation of International Public Sector Accounting Standards (IPSAs). (5 marks)
- Bob Muli operates a general supplies shop but does not maintain a full set of accounting records.

The following information was extracted from his records:

Summary of bank account for the year ended 31 July 2021:

Receipts	Sh. "000"
Balance (1 August 2020)	3,940
Additional capital	40,000
Cash from trade receivables	192,000
Proceeds on sale of motor vehicle (van)	<u>4,200</u>
	<u>240,140</u>

Payments	
Rent and rates	5,200
Salaries and wages	30,200
Payment to suppliers	144,000
Purchases of motor vehicle (Lorry)	26,000
Personal drawings	18,400
Insurance	1,600
Postage and stationery	2,720
Repairs and maintenance	1,300
Motor vehicle running expenses	6,700
Balance (31 July 2021)	<u>4,020</u>
	<u>240,140</u>

Additional information:

1. The following balances were provided:

	1 August 2020	31 July 2021
	Sh. "000"	Sh. "000"
Trade payables	9,400	5,180
Trade receivables	14,640	19,000
Accrued rent and rates	400	520
Motor vehicles:		
• Van - Cost	20,000	-
• Van - Depreciation	16,000	-
• Lorry - Cost	-	26,000
• Lorry - Depreciation	-	?
Prepaid insurance	320	400
Inventory	9,800	11,800

- Bob Muli depreciates motor vehicles at the rate of 20% per annum on a straight line basis. A full year's depreciation is provided in the year of purchase and no depreciation is charged in the year of disposal.
- All receipts are banked and all payments are made from the business bank account.
- Discount received from the suppliers during the year amounted to Sh.2,200,000.
- A trade receivable of Sh.600,000 owed by Wambu Enterprises and included in the trade receivables as at 31 July 2021 is to be written off.

Required:

- Statement of profit or loss for the year ended 31 July 2021. (8 marks)
 - Statement of financial position as at 31 July 2021. (7 marks)
- (Total: 20 marks)**

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 17 May 2021.

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

Rebecca Mwalimu, a sole trader, does not keep a complete set of accounting records. However, the following balances have been extracted from her business records:

1. Summary of the bank statement for the year ended 31 December 2020:

	Sh."000"		Sh."000"
Balance brought forward (1 January 2020)	3,940	Payment to suppliers	144,000
Cash from accounts receivable	192,000	Purchase of lorry	26,000
Sale of private car	40,000	Rent	5,200
Sale of bus	4,200	Motor vehicle expenses	6,700
		Wages	30,200
		Stationery	2,720
		Drawings	18,400
		General expenses	1,300
		Insurance	1,600
		Balance carried forward (31 December 2020)	4,020
	240,140		240,140

2. Assets and liabilities other than balance at bank:

	1 January 2020 Sh."000"	31 December 2020 Sh."000"
Accounts payable	9,400	5,180
Accounts receivable	14,640	19,000
Rent accrued	400	520
Bus at cost	20,000	-
Accumulated depreciation	16,000	-
Lorry at cost	-	26,000
Accumulated depreciation	-	?
Inventory	9,800	11,800
Insurance prepaid	320	400

Additional information:

1. All receipts are banked and all payments are made from the business bank account.
2. Accounts receivable amounting to Sh.600,000 and included in the accounts receivable as at 31 December 2020 is to be written off as an irrecoverable debt.
3. It is Rebecca Mwalimu's policy to provide depreciation at the rate of 20% on the cost of motor vehicles held at the end of each financial year. No depreciation is provided in the year of sale or disposal of the motor vehicle.
4. Discounts received during the year ended 31 December 2020 from accounts payable amounted to Sh.2,200,000.

Required:

- (a) Statement of profit or loss for the year ended 31 December 2020. (12 marks)
- (b) Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Briefly explain the following accounting concepts:
- (i) Accrual concept. (2 marks)
- (ii) Money measurement concept. (2 marks)
- (b) The following are the statements of financial position of Bahasha Ltd.:

Bahasha Ltd.				
Statement of financial position as at 31 December:				
	2020		2019	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non-current assets:				
Plant at cost		4,680		1,800
Less: Accumulated depreciation		<u>(2,160)</u>		<u>(720)</u>
		2,520		1,080
Investments at cost		<u>360</u>		<u>720</u>
		2,880		1,800
Current assets:				
Inventories	5,040		1,440	
Accounts receivable	11,160		4,860	
Bank balance	<u>-</u>		<u>360</u>	
		<u>16,200</u>		<u>6,660</u>
Total assets		19,080		8,460
Current liabilities:				
Bank overdraft	432		-	
Accounts payable	5,688		2,340	
Current tax payable	1,368		828	
Proposed dividends	<u>936</u>		<u>540</u>	
		<u>(8,424)</u>		<u>(3,708)</u>
Net assets		<u>10,656</u>		<u>4,752</u>
Financed by:				
Share capital (ordinary shares of Sh.100 each)		5,400		1,800
Share premium		1,440		540
Retained earnings		<u>3,816</u>		<u>2,412</u>
Capital employed		<u>10,656</u>		<u>4,752</u>

Additional information:

1. During the year ended 31 December 2020, the company issued new ordinary shares for cash.
2. During the year ended 31 December 2020, no interim dividend was paid.
3. As at 31 December 2020, the current tax payable for the year ended 31 December 2019 was fully paid.
4. During the year ended 31 December 2020, investments costing Sh.540,000 were sold for cash at their book value.
5. Plant with an original cost of Sh.90,000 was sold for Sh.72,000 in cash during the year ended 31 December 2020. The accumulated depreciation on the plant as at the date of disposal amounted to Sh.36,000.

Required:

Statement of cash flows for the year ended 31 December 2020 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". (16 marks)

(Total: 20 marks)

QUESTION THREE

Bolt and Nut Ltd. is a medium sized manufacturing company. The following trial balance was extracted from the books of the company as at 30 September 2020:

	Sh."000"	Sh."000"
Ordinary share capital		60,000
Share premium		20,000
Retained profits (1 October 2019)		16,000
Allowance for unrealised profits as at 1 October 2019		2,760
Motor vehicle expenses	9,000	
Bank balance	33,200	
Dividends paid	23,000	
Accounts receivable	56,000	
Accounts payable		11,000
Inventories at 1 October 2019:		
Raw materials	14,000	
Work-in-progress	10,000	
Finished goods	13,800	
Purchases of raw materials	76,000	
Direct labour cost	56,000	
Factory general expenses -		
Variable	32,000	
Fixed	18,000	
Administrative expenses -		
Rent	38,000	
Electricity	12,000	
Stationery and postage	4,000	
Staff salaries	38,760	
Sales		384,000
Plant and machinery (at cost)		60,000
Accumulated depreciation (1 October 2019)		24,000
Motor vehicles (for sales deliveries) at cost	32,000	
Accumulated depreciation (1 October 2019)		8,000
	<u>525,760</u>	<u>525,760</u>

Additional information:

1. Inventories as at 30 September 2020 were valued as follows:

	Sh."000"
Raw materials	18,000
Work-in-progress	16,000
Finished goods	20,700

2. Finished goods are transferred to the warehouse at cost plus a mark-up of 25%.
3. Depreciation is charged on a straight-line basis as follows:

Asset	Rate per annum
Plant and machinery	10%
Motor vehicles	25%

4. As at 30 September 2020, accrued direct labour cost amounted to Sh.6,000,000 while prepaid rent amounted to Sh.4,000,000.

Required:

- (a) Manufacturing account and statement of profit or loss for the year ended 30 September 2020. (12 marks)
- (b) Statement of financial position as at 30 September 2020. (8 marks)

(Total: 20 marks)

QUESTION FOUR

Tangazo Society organises educational seminars and workshops for its members. It also publishes a monthly magazine for circulation to both members and non-members.

The following is the receipts and payments account for the society for the year ended 30 September 2020:

Receipts and payments account

	Sh. "000"		Sh. "000"
Balance brought forward	2,950	Printing of magazine	5,075
Subscriptions	9,275	Lecture fees	1,175
Investment income	1,645	Stationery and postage	1,435
Magazine advertisements	2,225	Telephone expenses	360
Magazine subscriptions	4,795	General expenses	1,445
		Purchase of office equipment	700
		Rent and rates	1,025
		Salaries and wages	4,925
		Balance carried forward	<u>4,750</u>
	<u>20,890</u>		<u>20,890</u>

Additional information:

1. As at 30 September:

	2019	2020
	Sh. "000"	Sh. "000"
Salaries and wages accruing	475	375
Owing to the magazine printers	1,295	1,395
Magazine advertisement income receivable	360	550
Magazine subscriptions in advance	1,190	925
Office equipment	4,800	4,950
Investments	21,950	?
2. During the year ended 30 September 2020, the following amounts were spent on distribution of the magazine:
 - Sh.325,000 of the total cost of salaries and wages.
 - Sh.545,000 of the total cost of stationery and postage.
3. During the year ended 30 September 2020, the annual subscriptions received included:

	Sh. "000"
• For the year ended 30 September 2019	185,000
• For the year ending 30 September 2021	1,175,000

Required:

- (a) Magazine income and expenditure account for the year ended 30 September 2020. (4 marks)
 - (b) Income and expenditure account for the year ended 30 September 2020. (10 marks)
 - (c) Statement of financial position as at 30 September 2020. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) State whether each of the following items should be classified as capital expenditure, revenue expenditure or income:

(i) Legal fees in connection with the purchase of premises.	(1 mark)
(ii) Cost of repainting a building.	(1 mark)
(iii) Proceeds from insurance compensation.	(1 mark)
(iv) Insurance premiums for a new vehicle.	(1 mark)
(v) Cost of training staff to operate a new machine.	(1 mark)
(vi) Revenue from sale of scrap metal.	(1 mark)
 - (b) In the context of public sector accounting, explain the following:

(i) Cash accounting.	(2 marks)
(ii) Commitment accounting.	(2 marks)
 - (c) Discuss five fundamental principles of professional ethics that a professional accountant should be guided by. (10 marks)
- (Total: 20 marks)**



ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 23 November 2020.

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) Distinguish between “capital expenditure” and “revenue expenditure”: (4 marks)
- (b) Andrew, Ben and Christine are partners trading as ABEC Partnership. The partners share profits and losses in the ratio 3:1:1 after allowing for interest on capital at 10% per annum and salaries to Ben and Christine of Sh.300,000 each per annum.

The partnership trial balance as at 31 December 2019 was as follows:

	Debit Sh.“000”	Credit Sh.“000”
Capital accounts: Andrew		3,000
Ben		2,000
Christine		1,500
Sales and purchases	6,000	10,000
Accounts payable and accounts receivable	2,000	800
Returns inward and returns outward	400	200
Discounts allowed and discounts received	200	300
Current accounts: Andrew		500
Ben		400
Christine	200	
General expenses	1,200	
Office expenses	1,000	
Bad debts written off	200	
Allowance for doubtful debts		200
Salaries and wages	500	
Rent and rates	200	
Land and buildings	4,000	
Plant and machinery	3,000	
Motor vehicles	3,000	
Accumulated depreciation (1 January 2019):		
Land and buildings		1,000
Plant and machinery		1,500
Motor vehicles		500
	<u>21,900</u>	<u>21,900</u>

Additional information:

- Inventory as at 31 December 2019 was valued at Sh.1,000,000.
- Allowance for doubtful debts is maintained at 10% of accounts receivable.
- As at 31 December 2019, general expenses amounting to Sh.200,000 were in arrears while rent and rates amounting to Sh.100,000 was paid in advance.
- Depreciation is provided as follows:

Asset:

- Land and buildings
- Plant and machinery
- Motor vehicles

Rate:

- 10% on cost per annum.
- 20% on reducing balance per annum.
- 15% on cost per annum.

Required:

- (i) Statement of profit or loss and appropriation account for the year ended 31 December 2019. (8 marks)
- (ii) Statement of financial position as at 31 December 2019. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Highlight two differences between the "receipts and payments account" and "income and expenditure account". (4 marks)
- (b) The following balances were extracted from the books of Dori Ltd. as at 31 March 2020:

	Sh."000"	Sh."000"
Purchases	5,200	
Sales		12,363
Trade receivables and trade payables	1,180	550
Distribution costs	920	
Administrative costs	1,650	
Inventory (1 April 2019)	1,620	
Bank interest	5	
Bank overdraft		220
Salaries and wages	420	
Allowance for doubtful debts		52
Bad debts written off	5	
Property (at cost)	3,100	
Plant and equipment (at cost)	2,200	
Motor vehicle (at cost)	900	
Accumulated depreciation (as at 1 April 2019):		
Property		750
Plant and equipment		520
Motor vehicles		230
Retained earnings brought forward (1 April 2019)		415
Ordinary share capital of Sh.1 each		700
General reserve		250
6% loan		1,500
Bank	<u>350</u>	
	<u>17,550</u>	<u>17,550</u>

Additional information:

1. The inventory as at 31 March 2020 was valued Sh.1,570,000.
2. As at 31 March 2020, rent owing was Sh.90,000 and Sh.25,000 had been paid in advance for insurance. Both these expenses are chargeable 60% to distribution and 40% to administration.
3. Interest on 6% loan accrues yearly.
4. Corporate tax is provided at 30% per annum.
5. Depreciation is to be provided per annum at the following rates:
 - Property: 2% on cost, chargeable 50% distribution and 50% administration.
 - Plant and equipment: 10% on cost, chargeable 60% distribution and 40% administration.
 - Motor vehicle: 20% reducing balance, all chargeable to distribution.
6. Allowance for doubtful debts is to be set at 5% on trade receivables balance at the end of the year.
7. Administrative costs include Sh.350,000 in relation to spending on research and development of a new product. The product is set to go on sale on 1 April 2020 and the revenue from the product is expected to cover all costs of production.

Required:

- (i) Statement of profit or loss for the year ended 31 March 2020. (8 marks)
- (ii) Statement of financial position as at 31 March 2020. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

Limau Stores has two branches; Nairobi branch and Eldoret branch. The following financial statements were extracted from the books of both branches of Limau Stores for the year ended 31 March 2020:

Income statement	Nairobi		Eldoret	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Sales (all on credit)		18,000		27,000
Less: Cost of sales				
Opening inventory	2,400		3,000	
Purchases (all on credit)	<u>13,000</u>		<u>22,500</u>	
	15,400		25,500	
Less: Closing inventory	<u>(1,400)</u>		<u>(2,600)</u>	
Cost of sales		<u>(14,000)</u>		<u>(22,900)</u>
Gross profit		4,000		4,100
Less: Expenses – Depreciation	220		400	
Other expenses	<u>3,180</u>	<u>(3,400)</u>	<u>2,800</u>	<u>3,200</u>
Net profit		<u>600</u>		<u>900</u>

Statement of financial position

Non-current assets:

Land and buildings	450	2,200
Equipment	<u>210</u>	<u>900</u>
	<u>660</u>	<u>3,100</u>

Current assets:

Inventory	1,400	2,600
Trade receivables	2,650	1,200
Bank	<u>40</u>	<u>20</u>
	<u>4,090</u>	<u>3,820</u>
Total assets	<u>4,750</u>	<u>6,920</u>

Equity and liabilities:

Capital and reserves:

Balance as at 1 April 2019	2,400	4,300
Add net profit	<u>600</u>	<u>900</u>
	3,000	5,200
Less drawings	<u>(700)</u>	<u>(800)</u>
	<u>2,300</u>	<u>4,400</u>

Current liabilities:

Trade payables	<u>2,450</u>	<u>2,520</u>
Total equity and liabilities	<u>4,750</u>	<u>6,920</u>

NB: Assume a 365-day year

Required:

(a) Compute the following ratios for each branch:

- Gross profit ratio. (2 marks)
- Net profit margin ratio. (2 marks)
- Return on capital employed (ROCE). (2 marks)
- Inventory turnover. (2 marks)
- Current ratio. (2 marks)
- Acid test ratio. (2 marks)
- Trade receivable days. (2 marks)
- Trade payable days. (2 marks)

(b) Comment on the following for each branch:

- Solvency. (2 marks)
- Efficiency. (2 marks)

(Total: 20 marks)

QUESTION FOUR

The following information was extracted from the books of Alex Mala, a milk vendor who does not keep a full set of accounting records.

Summary of the bank account for the year ended 30 April 2020:

	Sh. "000"	Sh. "000"
Balance brought forward (1 May 2019)	100	
Cash from trade receivables	4,800	
Sale of private vehicle (VC741B)	1,000	
Sale of business motor van (BP743R)	105	
Payment of suppliers		3,600
Purchase of business motor van (CR689G)		650
Rent		130
Wages		755
Motor vehicle expenses		168
Postage and stationery		68
Drawings		460
Repairs and maintenance		33
Insurance		40
Balance carried forward		<u>101</u>
	<u>6,005</u>	<u>6,005</u>

Assets and liabilities, other than balance at bank:

	1 May 2019 Sh. "000"	30 April 2020 Sh. "000"
Trade payables	235	130
Trade receivables	366	475
Rent accrued	10	13
Inventory	245	295
Insurance prepaid	8	10
Motor vans:		
BP743R	500	-
Accumulated depreciation	400	-
CR689G	-	650
Accumulated depreciation	-	?

Additional information:

- All receipts are banked and all payments are made from the business bank account.
- A trade debt of Sh.15,000 owing by Elizabeth and included in the trade receivables as at 30 April 2020 is to be written off as an irrecoverable debt.
- Alex provides for depreciation at the rate of 20% on the cost of motor vans held at the end of each financial year.
- Discounts received during the year ended 30 April 2020 from trade payable amounted to Sh.55,000.
- Proceeds from the sale of the private vehicle (VC741B) were used as additional capital for the business.

Required:

- Statement of profit or loss for the year ended 30 April 2020. (10 marks)
 - Statement of financial position as at 30 April 2020. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Distinguish between the terms "accumulated fund" and "capital". (4 marks)
 - Explain five accounting concepts. (5 marks)
 - Outline three possible external sources of government revenue. (3 marks)
 - Explain two benefits and two challenges of using the accrual basis of accounting in the public sector. (8 marks)
- (Total: 20 marks)**
-



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ATD LEVEL II

FINANCIAL ACCOUNTING

TUESDAY: 26 November 2019.

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) The following groups of stakeholders have different information needs in the financial statements.

Outline the specific needs of:

- (i) Shareholders. (1 mark)
- (ii) Employees of the entity. (1 mark)
- (iii) Suppliers. (1 mark)
- (b) Discuss five differences between "public sector accounting" and "private sector accounting". (10 marks)
- (c) Haraka Ltd. was incorporated on 4 October 2019 with a nominal capital of Sh.10,000,000 divided into 500,000 ordinary shares of Sh.20 each.

On 5 October 2019, the directors invited interested members of the public to apply for purchase of shares at par. The closing date for application was 15 October 2019. Applications were received for 600,000 shares and paid in full. The allotment was made on 20 October 2019 and the excess application money refunded.

On 26 October 2019, the directors bought furniture for Sh.1,500,000, equipment Sh.2,500,000 and inventory Sh.5,000,000.

Required:

Journal entries to record the above transactions (include narrations).

(7 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Highlight four benefits of electronic transfer of funds. (4 marks)
- (b) The following financial statements were extracted from the books of Kitabu Ltd. for the years ended 30 June 2019 and 30 June 2018:

Statement of comprehensive income for the year ended 30 June:

	2019	2018
	Sh."000"	Sh."000"
Revenue	204,000	168,000
Cost of sales	<u>(148,800)</u>	<u>(129,600)</u>
Gross profit	55,200	38,400
Distribution cost	(21,600)	(14,400)
Administrative expenses	(13,200)	(9,600)
Finance cost - Loan interest	(900)	(1,500)
- Lease interest	<u>(1,500)</u>	<u>(600)</u>
Profit before tax	18,000	12,300
Less: Income tax expense	<u>(6,000)</u>	<u>(4,500)</u>
Profit after tax	12,000	7,800
Other incomes	<u>8,100</u>	-
Net profit	<u>20,100</u>	<u>7,800</u>

Statement of financial position as at 30 June:

	2019		2018	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non-current assets:				
Property, plant and equipment		84,000		64,200
Deferred development		<u>6,000</u>		<u>-</u>
		90,000		64,200
Current assets:				
Inventory	21,000		24,000	
Accounts receivable	16,500		12,000	
Bank	<u>300</u>		<u>7,800</u>	
		<u>37,800</u>		<u>43,800</u>
		<u>127,800</u>		<u>108,000</u>
Equity and liabilities:				
Ordinary shares		48,000		48,000
Revaluation reserve		8,100		-
Retained earnings		<u>19,200</u>		<u>10,500</u>
		75,300		58,500
Non-current liabilities:				
8% loan	8,400		18,750	
Deferred tax	9,000		4,800	
Finance lease obligation	<u>7,200</u>		<u>5,400</u>	
		24,600		28,950
Current liabilities:				
Finance lease obligation	4,500		3,600	
Accounts payable	15,900		12,600	
Current tax payable	<u>7,500</u>		<u>4,350</u>	
		<u>27,900</u>		<u>20,550</u>
		<u>127,800</u>		<u>108,000</u>

Additional information:

- Kitabu Ltd. revalued property upwards by Sh.12,000,000 and transferred Sh.3,900,000 of the revaluation amount to deferred tax on 1 January 2019.
- There was no disposal of non-current assets during the period.
- Depreciation of property, plant and equipment was Sh.5,400,000 for the year ended 30 June 2019.
- Amortisation of the deferred development expenditure was Sh.1,200,000 for the year ended 30 June 2019.
- Kitabu Ltd. acquired an additional plant with a fair value of Sh.9,000,000 through a finance lease on 1 January 2019.

Required:

Statement of cash flows for the year ended 30 June 2019, in accordance with International Accounting Standard (IAS) 7, "Statement of Cash Flows".

(16 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of James Tiibu, a manufacturer, as at 31 October 2019:

	Sh."000"	Sh."000"
Capital as at 1 November 2018		575,000
10% Bank loan		200,000
Land and buildings	675,000	
Inventory (1 November 2018):		
- Raw materials	37,000	
- Loose tools	13,000	
- Finished goods	60,000	
Purchase of raw materials	403,750	
Carriage inwards of raw materials	11,250	
Returns inward	77,500	
Royalties expenses	25,000	
Sales		1,077,500
Factory plant and machinery (at cost)	200,000	
Provision for depreciation on plant and machinery		100,000
Office furniture and fittings (at cost)	40,000	

Provision for depreciation on furniture and fittings	Sh."000"	Sh."000"
Accounts receivable	80,000	30,000
Accounts payable		60,000
Bank balance	30,000	
Factory wages - direct	182,000	
- indirect	40,000	
Direct factory expenses	18,000	
Office expenses - general	20,000	
- salaries	30,000	
Plant and machinery maintenance	20,000	
Cleaning expenses	40,000	
Rates	40,000	
	<u>2,042,500</u>	<u>2,042,500</u>

Additional information:

1. Inventories as at 31 October 2019 were valued as follows:

	Sh."000"
Raw materials	38,500
Loose tools	1,500
Work-in-progress	10,000
Finished goods	70,000

2. Depreciation is to be provided on a straight-line basis as follows:

Asset	Rate per annum
Plant and machinery	10%
Furniture and fittings	25%

3. Rates and cleaning expenses are to be apportioned at the rate of 75% and 25% to the factory and office respectively.
 4. As at 31 October 2019, interest on the bank loan had not been paid.

Required:

- (a) Manufacturing account for the year ended 31 October 2019. (7 marks)
 (b) Income statement for the year ended 31 October 2019. (6 marks)
 (c) Statement of financial position as at 31 October 2019. (7 marks)

(Total: 20 marks)

QUESTION FOUR

The following is the receipts and payments account for Mrija Sports Club for the year ended 30 September 2019:

Receipts and payments account

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward	5,100	Club house rent and rates	1,140
Subscriptions	25,800	Club house maintenance cost	2,730
Bar sales	41,400	Annual dinner cost	1,950
Annual dinner ticket sales	1,410	Bar purchases	27,600
Donation	3,504	Stationery and printing	744
		Purchase of sports equipment	7,389
		Insurance cost	267
		Salary and wages	14,100
		Petty cash	282
		Balance carried forward	<u>21,012</u>
	<u>77,214</u>		<u>77,214</u>

Additional information:

1. As at 30 September:

	2018	2019
	Sh."000"	Sh."000"
Club house at cost (Purchased on 1 October 2016)	45,000	45,000
Bar inventory at cost	5,520	7,080
Petty cash	90	30
Fixed deposit account	1,800	2,190
Subscriptions received in advance	630	1,080
Bar payables	7,200	5,700

2. Depreciation is provided on cost as follows:

Asset	Rate per annum
Club house	10%
Sports equipment	33 ¹ / ₃ %

3. The petty cash is used exclusively for postage.

4. 25% of the salary and wages and 50% of the club house expenses (including depreciation) are to be apportioned to the bar.

5. The donation received during the year ended 30 September 2019 is for construction of a new tennis court.

6. The only entry in the fixed deposit account during the year ended 30 September 2019 is interest income.

Required:

- (a) Bar income statement for the year ended 30 September 2019. (4 marks)
- (b) Income and expenditure account for the year ended 30 September 2019. (10 marks)
- (c) Statement of financial position as at 30 September 2019. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain four factors that an organisation might consider when formulating its depreciation policy. (8 marks)
- (b) Liz Muta does not keep records of inventory movements. A physical stock take is carried out at the end of each quarter and inventory is priced at cost. This cost is used in preparing quarterly accounts.

Draft accounts have been prepared for the year ended 30 June 2019, but have not been completed as the details of the stock take carried out on 30 June 2019 were misplaced.

The company operates on a gross profit mark-up of 25% of the cost.

The following additional information is available:

- Total sales invoiced to customers during the months of April, May and June 2019 were Sh.5,376,400. This figure includes Sh.402,800 relating to goods dispatched on or before 31 March 2019.
- The total sales made before 30 June 2019 but invoiced in the following month were Sh.551,200.
- The total of purchases invoices entered in the purchases day book during April, May and June 2019 were Sh.4,058,000. This figure includes Sh.294,000 in respect of goods received on or before 31 March 2019.
- Invoices relating to goods received in June 2019 but which were not entered in the purchases daybook until July 2019, totalled Sh.388,000.
- The value of the inventory at cost on 1 April 2019 was Sh.4,264,000.
- In the inventory sheet for the quarter ended 31 March 2019, the following errors were noted:
 - The total of one page was overcast by Sh.8,500.
 - 1,200 items had been priced at Sh.40 each yet had cost Sh.200 each.
 - The total of inventory in one section which was Sh.526,000 had been included in the summary as Sh.562,000.

The above errors had not yet been corrected.

Required:

The value of inventory on 30 June 2019.

(12 marks)
(Total: 20 marks)



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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 20 May 2019.

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) A change in accounting principle is accounted for through retrospective application of the new accounting principle to all prior periods unless it is impracticable to do so.

With reference to the above statement, explain three requirements of retrospective application of changes in accounting principles in financial statements. (6 marks)

- (b) The following trial balance was extracted from the books of Amadu Company Limited as at 31 March 2019:

	Sh."000"	Sh."000"
Ordinary share capital of Sh.20 each		3,500
7% preference share capital of Sh.20 each		1,000
Retained earnings		2,420
General reserves		1,710
10% debentures		2,000
Land and buildings at cost	4,300	
Plant and machinery at cost	8,300	
Inventory (1 April 2018)	1,900	
Investments	2,310	
Goodwill	200	
Accumulated depreciation (1 April 2018):		
Buildings		200
Plant and machinery		2,220
Sales		26,950
Purchases	21,860	
Interim dividends paid: Preference shareholders	70	
Ordinary shareholders	80	
10% debentures interest paid	100	
Wages and salaries	2,540	
Electricity	310	
Sundry expenses	1,130	
Suspense account		4,200
Cash in hand	1,260	
Accounts receivable	1,790	
Accounts payable		1,950
	<u>46,150</u>	<u>46,150</u>

Additional information:

1. Sundry expenses include Sh.60,000 paid in respect of insurance for the year ending 31 March 2020.
2. Electricity expenses include Sh.200,000 relating to salesmen commission but exclude an invoice of Sh.30,000 for three months ended 31 March 2019.
3. The suspense account is in respect to the following items:

	Sh."000"
Proceeds from the issue of 25,000 ordinary shares	1,200
Proceeds from the sale of plant	<u>3,000</u>
	<u>4,200</u>

4. Land and buildings were acquired three years ago. The buildings element of the cost was estimated at Sh.1,000,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 March 2019, land and buildings were valued at Sh.8,000,000 by a professional valuer.
5. The plant which was sold had cost Sh.3,500,000 and a carrying amount of Sh.2,740,000 as on 1 April 2018. Depreciation of Sh.360,000 is to be charged on plant and machinery for the year ended 31 March 2019.
6. The 10% debentures have been in issue for some years.
7. All the Sh.20 ordinary shares rank for dividends at the end of the year.
8. The management wishes to provide for:
 - 10% debentures interest due.
 - Transfer to general reserves of Sh.160,000.
 - Audit fees of Sh.40,000.
9. Inventory as at 31 March 2019 was valued at Sh.2,200,000.

Required:

- (i) Income statement for the year ended 31 March 2019. (7 marks)
 - (ii) Statement of financial position as at 31 March 2019. (7 marks)
- (Total: 20 marks)**

QUESTION TWO

Musa Makadi runs a cereals store but does not keep proper records. A summary of his bank account for the year ended 31 March 2019 was as follows:

	Sh. "000"
Receipts	
Bank balance as at 1 April 2018	30,000
Merry-go-round loan	20,000
Takings	84,000
Payments	
Purchase of goods for resale	52,800
Electricity for nine months to December 2018	1,520
Rent of premises for 15 months to 30 June 2019	7,000
Rates of premises for the year ended 31 March 2019	2,400
Wages of assistant	29,400
Purchase of motor van (1 October 2018)	15,200
Purchase of flight ticket for private business	17,000
Motor van insurance, payment covering the year to 31 March 2019	500

Additional information:

1. According to the bank account, the bank balance on 31 March 2019 was Sh.8,180,000 in Musa Makadi's favour.
2. While the intention was to bank all takings intact, the following payments were made out of takings before banking:

Sh. "000"	
Motor van running expenses	1,780
Sundry expenses	710
3. On 31 March 2019, takings of Sh.1,280,000 awaited banking but this was done on 1 April 2019.
4. It has been discovered that the amounts paid into the bank of Sh.680,000 on 29 March 2019 were not credited to Musa Makadi's bank account until 2 April 2019 and a cheque of Sh.240,000, drawn on 28 March 2019 for purchases was not paid until 10 April 2019.
5. The normal rate of gross profit on the goods sold by Musa Makadi is 50% on sales. However, during the year a purchase of yellow maize which cost Sh.1,200,000 proved to be unpopular with customers and therefore the entire stock bought had to be sold at cost price.
6. Interest at the rate of 5% per annum is payable on each anniversary of the merry-go-round loan. The loan was taken on 1 January 2019.
7. Depreciation is to be provided on the van on the straight line basis. It is estimated that the van will be disposed of after five year's use for Sh.200,000.
8. Inventory as at 31 March 2019 was valued at Sh.3,800,000.
9. Trade payables as at 31 March 2019 amounted to Sh.1,760,000 while trade receivables amounted to Sh.4,600,000.
10. Accrued electricity charges as at 31 March 2019 were Sh.360,000.

Required:

- (a) Income statement for the year ended 31 March 2019. (10 marks)
- (b) Statement of financial position as at 31 March 2019. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) State three reasons why organisations provide for depreciation while measuring the profits of the business. (6 marks)
- (b) The following financial statements relate to Mega Ltd. for the years ended 31 March 2018 and 31 March 2019:

	2018 Sh. "million"	2019 Sh. "million"
Ordinary shares of Sh.10 each	5,000	6,000
Share premium	1,000	1,500
General reserve	400	500
Retained earnings	960	1,058
10% debentures	2,850	2,850
Accounts payable	700	800
Corporation tax	198	200
Dividend payable	300	450
Bank overdraft	<u>-</u>	<u>1,050</u>
	<u>11,408</u>	<u>14,408</u>
Non-current assets:		
Property, plant and equipment	9,012	9,408
Current assets:		
Inventory	946	1,948
Accounts receivable	1,000	3,052
Bank balance	<u>450</u>	<u>-</u>
	<u>11,408</u>	<u>14,408</u>

The income statement for the year ended 31 March 2019:

	Sh. "million"
Sales	9,500
Cost of sales	<u>(6,650)</u>
Gross profit	2,850
Administrative expenses	(800)
Sales and distribution cost	(625)
Financial cost	<u>(285)</u>
Profit before tax	1,140
Corporation tax	<u>(342)</u>
Profit after tax	<u>798</u>

Additional information:

- Proposed dividend amounted to Sh. 600 million.
- An equipment with net book value of Sh.112 million was sold for Sh.92 million.
- A new machine was purchased for Sh.800 million.

Required:

Statement of cash flow for the year ended 31 March 2019 as per International Accounting Standard (IAS) 7 (Statement of Cash Flows). (14 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) In relation to manufacturing concerns, explain the following:
- (i) Prime costs. (2 marks)
- (ii) Indirect factory costs. (2 marks)

- (b) Allan and Bob are in partnership sharing profits and losses in the ratio of 3:2 respectively after allowing interest of 10% on capital.

On 1 November 2018, they agreed to admit Chami into the partnership sharing profit and losses in the ratio of Allan $\frac{3}{5}$, Bob $\frac{2}{5}$ and Chami $\frac{1}{5}$ after allowing interest on capital at 10 per cent per annum.

To facilitate the admission of Chami it was agreed that goodwill be valued at Sh.15 million and written-off immediately. Land and buildings were to be valued at Sh.210 million.

Their trial balance as on 31 March 2019 was as follows: -

	Sh. "000"	Sh. "000"
Gross profit		192,000
Land and buildings at cost	200,000	
Equipment at cost	60,000	
Motor vehicles at cost	80,000	
Accumulated depreciation (1 April 2018):		
Equipment		6,000
Motor vehicles		16,000
Inventory (31 March 2018)	34,000	
Capital accounts: Allan		80,000
Bob		60,000
Capital introduced by Chami		43,000
Current account: Allan		10,000
Bob		8,000
Drawings: Allan	8,000	
Bob	6,000	
Chami	4,000	
Administrative expenses	40,000	
Sales and distribution costs	60,600	
Interest on loan	10,000	
20% bank loan		100,000
Accounts receivable and accounts payable	20,000	19,000
Bank balance	<u>11,400</u>	
	<u>534,000</u>	<u>534,000</u>

Additional information

- A half a year interest on loan was owing as at 31 March 2019.
- Depreciation is provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Reducing balance
Motor vehicles	20%	Straight line
- The partners agreed that their capitals be in the new profit sharing ratio based on Chami's capital after adjustments. A partner with excess capital be paid and one with deficit to deposit cash into the bank equivalent to the deficit.
- Assume gross profit, expenses and net profit accrued evenly on time basis.

Required:

- Income statement and appropriation account for the year ended 31 March 2019 (in columnar form). (6 marks)
 - Partners capital accounts and current accounts. (6 marks)
 - Statement of financial position as at 31 March 2019. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to public accounts, explain the following:

- Revolving fund. (2 marks)
- Four functions of the National Assembly's Public Investment Committee (PIC). (4 marks)

(b) Summarise six reasons why governments are increasingly adopting the International Public Sector Accounting Standards (IPSAS). (6 marks)

(c) The following is the receipts and payments account for Wachezaji Cricket Club for the year ended 31 March 2019:

Receipts	Amounts Sh.	Payments	Amounts Sh.
Balance b/d (cash in hand)	18,000	Balance b/d (bank overdraft)	16,000
Members subscriptions	250,000	Upkeep of field and pavilion	115,000
Members admission fee	15,000	Tournament expenses	40,000
Sales of old sports material	2,500	Rates and insurance	10,000
Hire of grounds	28,000	Telephone	3,500
Subscription for tournament	60,000	Postage and courier charges	4,000
Life membership fees	20,000	Printing and stationery	26,000
Donations	600,000	Miscellaneous expenses	4,400
		Secretary's honorarium	30,000
		Grass seeds	2,600
		Investments	600,000
		Purchase of sports material	68,000
		Balance c/d	74,000
	<u>993,500</u>		<u>993,500</u>

Additional information:

1. Assets at the beginning of the financial year included:

	Sh.
Playground	500,000
Cash in hand	18,000
Stock of sports material	85,000
Printing and stationery	11,000
Subscription receivables	28,000

2. Donations and surplus if any are to be kept in reserve for a permanent pavilion.

3. Subscriptions due on 31 March 2019 were 42,000.

4. Write-off 50% of the sports material and 30% of printing and stationery.

Required:

Income and expenditure statement for Wachezaji Cricket Club as at 31 March 2019.

(8 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 26 November 2018.

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) In preparing the books of account of your organisation for the year ended 30 September 2018, you discover the following:
- (i) The long term future survival of the organisation is extremely uncertain.
 - (ii) The chief executive officer wishes that the organisation's good public relations could be reflected in the accounts.
 - (iii) One of the owners of the organisation has invested his drawings in a corporate bond.
 - (iv) Although the sales have not yet been actualised, some reliable customers of the organisation have placed several large orders that are likely to be extremely profitable.

Required:

In the context of accounting concepts, explain how you would treat each of the above issues. (8 marks)

- (b) The following are the summarised accounts of Moto Ltd. for the years ended 31 October 2017 and 31 October 2018:

Moto Ltd.						
Statement of financial position as at 31 October:						
	2017			2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Assets:						
Non-current assets:						
Land	1,720	-	1,720	2,520	-	2,520
Plant	400	160	240	440	200	240
Building	<u>2,000</u>	<u>400</u>	<u>1,600</u>	<u>3,600</u>	<u>440</u>	<u>3,160</u>
	4,120	560	3,560	6,560	640	5,920
Investment (Cost)			<u>2,000</u>			<u>3,200</u>
			5,560			9,120
Current assets:						
Inventory		2,200			2,600	
Trade receivables		1,600			2,000	
Cash in hand		<u>120</u>	<u>3,920</u>		<u>-</u>	<u>4,600</u>
Total assets			9,480			13,720
Equity and liabilities:						
Equity:						
Ordinary share capital (Sh.20 par value)			1,600			2,000
Share premium			480			560
Revaluation reserve			-			800
Proposed dividends			800			800
Retained earnings			<u>1,000</u>			<u>1,000</u>
			3,880			5,160
Long-term liabilities:						
10% debentures			4,000			6,000

	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Current liabilities:						
Trade payables		1,600			2,400	
Bank overdraft		-	1,600		160	2,560
Total equity and liabilities			9,480			13,720

Moto Ltd.
Statement of income and appropriations for the year ended 31 October:

	2017	2018
	Sh."000"	Sh."000"
Sales	8,000	8,000
Cost of sales	(4,000)	(4,800)
Gross profit	4,000	3,200
Expenses	(2,400)	(2,400)
	1,600	800
Dividends	(800)	(800)
	800	-
Retained earnings brought forward	200	1,000
Retained earnings carried forward	1,000	1,000

Required:

Compute the following ratios for each of the two years ended 31 October 2017 and 31 October 2018:

- (i) Current ratio. (2 marks)
- (ii) Dividend coverage ratio. (2 marks)
- (iii) Gearing ratio. (4 marks)
- (iv) Return on capital employed (ROCE). (4 marks)

(Total: 20 marks)

QUESTION TWO

Fiona, Lydia and Tiana have been trading in partnership sharing profits and losses equally after allowing for interest on capital at the rate of 15% per annum.

As at 30 September 2018, the following trial balance was extracted from the partnership books, before adjustment in respect of changes in the partnership:

	Sh."000"	Sh."000"
Premises	2,040	
Plant and machinery	800	
Accumulated depreciation (30 September 2018)		80
Inventory (30 September 2018)	540	
Trade receivables and trade payables	360	660
Bank balance		180
Capital accounts:		720
Fiona		960
Lydia		720
Tiana		180
Current accounts:		240
Fiona		120
Lydia		
Tiana		
Drawings:	660	
Fiona	780	
Lydia	480	
Tiana		
Net profit for the year		2,160
	5,840	5,840

Additional information:

1. Tiana retired on 30 June 2018. Fiona and Lydia agreed to continue with the business sharing profits and losses in the ratio of 3:2 respectively after allowing for interest on capital at the rate of 15% per annum.
2. Tiana agreed that the repayment for her capital account be delayed by two years. However, the outstanding balance is subject to an interest of 20% per annum.

3. Tiana's current account balance is to be held in a separate account and is payable on demand.
4. As at 30 June 2018, a valuation of goodwill was carried out and agreed to be Sh.1,440,000 but this was not to be shown in the books.
5. Premises were revalued at Sh.2,760,000 as at 30 June 2018.
6. No interest is charged on current accounts.
7. Assume that the net profit for the year accrued evenly over the year.

Required:

- (a) Partners' capital accounts as at 30 September 2018. (4 marks)
 - (b) Partners' current accounts as at 30 September 2018. (4 marks)
 - (c) Income and appropriation account for the year ended 30 September 2018. (6 marks)
 - (d) Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

George Lipa is a sole trader who has not kept complete books of account. The following is a summary of his bank statements for the year ended 31 October 2018:

	Sh."000"		Sh."000"
Amounts credited by bank	35,170	Balance brought forward	892
		Payment to trade creditors	30,500
		Rent and rates	475
		Fixtures	100
		Electricity	210
		General expenses	800
		Loan interest	120
		Drawings	900
		Customers' cheques dishonoured	180
	35,170	Balance carried forward	35,170

Additional information:

1. Cheques payable to trade creditors, but not presented as at 1 November 2017 amounted to Sh.280,000 and at 31 October 2018 amounted to Sh.320,000.
2. All dishonoured cheques were re-presented and honoured during the year.
3. During the year, George Lipa made the following payments in cash:

Item	Sh."000"
Wages	2,950
General expenses	140
Drawings	156

4. Of the cash received during the year ended 31 October 2018, Sh.34,740 was deposited in the bank account and Sh.20,000 was retained as cash in hand.
5. Cheques received from debtors amounting to Sh.250,000 were banked on 31 October 2018.
6. The loan interest was paid to Kwetu Bank Ltd. which had lent George Lipa Sh.4,000,000 two years ago at the rate of 3% per annum. The interest was duly paid half yearly on 31 January and 31 July.
7. Discounts received amounted to Sh.480,000 and discounts allowed amounted to Sh.520,000 as at 31 October 2018.
8. The following were the balances as at 31 October:

	2017 Sh."000"	2018 Sh."000"
Inventory	4,500	5,800
Trade receivables	2,800	3,200
Accrued general expenses	240	190
Rates paid in advance	40	50
Fixtures	2,800	2,550
Trade payables	1,800	2,200
Accrued electricity expenses	80	70

9. The trade debtors' balance as at 31 October 2018 includes a bad debt of Sh.200,000 which is to be written off.

Required:

- (a) Statement of affairs as at 31 October 2017. (4 marks)
- (b) Income statement for the year ended 31 October 2018. (12 marks)
- (c) Statement of financial position as at 31 October 2018. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

The secretary of Wazi Sports Club has approached you to prepare the club's final accounts for the year ended 30 June 2018.

The balances of assets and liabilities as at 1 July 2017 were as follows:

	Sh."000"
Building and sports pitch	90,000
Bar fixtures and fittings (cost Sh.12,000,000)	9,000
Bar inventory	1,200
Bank balance	2,410
Cash in hand	623
Subscriptions in arrears	100
Owing to bar suppliers	148
Coach's salary accrued	117.5
5% bank loan	40,000

The secretary provided you with a book which was used to record the receipts and payments for the year ended 30 June 2018 which were as follows:

	Sh."000"
Receipts:	
Sponsorship	1,820
Sale of scrap metal	5,720
Donations	285
Annual subscriptions	1,205
Sale of bar fixtures and fittings (1 October 2017)	725
Bar sales	22,155
Raffle ticket sales	3,062
Payments:	
Coach's salary	635
Ticket expenses	62.5
Printing of raffle tickets	420
Raffle prizes	550
Insurance	2,800
Bar salaries	2,870
Painting of bar	1,060
Electricity and water	1,200
Bar purchases	10,805

Additional information:

1. Insurance expenses and electricity and water expenses are split 1:1 between the bar and the club.
2. Bar fixtures and fittings are to be depreciated at the rate of 20% per annum on a straight line basis.
3. The bar fixtures and fittings that were disposed of during the year had cost Sh.2,500,000 and were purchased on 1 January 2015.
4. The club depreciates non-current assets from the date of acquisition to the date of disposal.
5. As at 30 June 2018, subscriptions due to the club amounted to Sh.90,000 and subscriptions received in advance amounted to Sh.190,000.
6. As at 30 June 2018, Sh.495,000 was owing to the bar suppliers.
7. All receipts except the income from the raffle ticket sales were deposited into the bank account.
8. All payments made by the club were made by cheque with the exception of payments in relation to raffle prizes and printing of raffle tickets.
9. The bar inventory as at 30 June 2018 was valued at Sh.950,000.
10. Six months of the loan interest (paid through the bank) was unpaid as at 30 June 2018.
11. The building and sports pitch are not to be depreciated.

Required:

- (a) Bar trading account for the year ended 30 June 2018. (5 marks)
 - (b) Income and expenditure account for the year ended 30 June 2018. (7 marks)
 - (c) Statement of financial position as at 30 June 2018. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight four characteristics of a government business enterprise. (4 marks)
 - (b) Explain three reasons why public sector entities prepare financial statements. (6 marks)
 - (c) Describe five components of a complete set of published financial statements of a company. (10 marks)
- (Total: 20 marks)**
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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 21 May 2018.

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) Summarise four limitations of cash flow statements. (4 marks)

(b) The following financial statements were extracted from the books of Dilco Limited for the year ended 31 December 2017:

Income statement for the year ended 31 December 2017:

	Sh."000"
Gross profit	44,700
Discount received	410
Profit on sale of motor vehicle	<u>620</u>
	45,730
Expenses:	
Motor vehicle expenses	(1,940)
Wages and salaries	(17,200)
Bad debts	(520)
Increase in doubtful debts	(200)
Depreciation: Motor vehicle	(1,800)
General administration expenses	<u>(830)</u>
Net profit for the year	<u>23,240</u>

Statement of financial position as at 31 December 2017:

	2016 Sh."000"	2017 Sh."000"
Non-current assets:		
Motor vehicle (cost)	15,400	8,200
Depreciation	<u>(5,300)</u>	<u>(3,100)</u>
	10,100	5,100
Current assets:		
Inventory	18,600	24,000
Trade receivables	8,200	6,900
Bank	<u>410</u>	<u>720</u>
Total assets	<u>37,310</u>	<u>36,720</u>
Financed by:		
Capital	17,210	21,410
Net profit	<u>21,200</u>	<u>23,240</u>
	38,410	44,650
Drawings	<u>(17,000)</u>	<u>(22,630)</u>
	21,410	22,020
Long term liabilities:		
Loan from Bidii Sacco	<u>10,000</u>	<u>7,500</u>
	31,410	29,520
Current liabilities:		
Trade payables	<u>5,900</u>	<u>7,200</u>
	<u>37,310</u>	<u>36,720</u>

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Additional information:

- The motor vehicle was sold for Sh.3,870,000 during the year 2017 and no new motor vehicle was purchased.
- Trade receivables in the year 2016 were Sh.8,800,000. A provision of Sh.600,000 for bad debts was made.
- In the year 2017, trade receivables were Sh.7,700,000 and a provision of Sh.800,000 for bad debts was made.

Required:

Statement of cash flows for the year ended 31 December 2017, in accordance with the requirements of International Accounting Standards (IAS) 7, "statement of cash flows".

(16 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance was extracted from the books of Justus Ongolo, a sole trader, as at 31 March 2018:

	Sh."000"	Sh."000"
Land at cost	80,000	
Buildings at cost	480,000	
Equipment at cost	320,000	
Accumulated depreciation as at 1 April 2017:		
Buildings		80,000
Equipment		152,000
Purchases	1,000,000	
Sales		1,608,800
Inventory as at 1 April 2017	200,000	
Discounts allowed	72,000	
Discounts received		9,200
Rent received		10,000
Return outwards		60,000
Salaries and wages	235,200	
Bad debts	18,400	
Bank note interest paid	10,200	
Insurance expenses	70,800	
Trade receivables	152,000	
Trade payables		133,800
Cash in hand	1,200	
Bank balances	5,200	
Drawings	16,000	
Allowance for doubtful debts (1 April 2017)		2,000
17% bank loan		120,000
Capital		485,200
	<u>2,661,000</u>	<u>2,661,000</u>

Additional information:

- Inventories as at 31 March 2018 comprised three categories (Class I, Class II and Class III) valued as follows:

	Class I Sh."000"	Class II Sh."000"	Class III Sh."000"
Cost	50,000	46,000	85,000
Net realisable value	60,000	56,000	72,000

- Salaries and wages outstanding as at 31 March 2018 were Sh.3,200,000.
- Allowance for doubtful debts is to be increased to 2% of trade receivables.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	1.5	Straight line
Equipment	25	Reducing balance
- 17% bank loan was obtained on 1 April 2017. The loan interest is due on 1 April and 1 October, as long as the loan remains outstanding.
- Prepaid insurance expenses as at 31 March 2018 amounted to Sh.1,200,000.

Required:

- Income statement for the year ended 31 March 2018. (10 marks)

- Statement of financial position as at 31 March 2018. (10 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Kevoz Ltd. that deals with manufacture of tyres as at 31 December 2017:

	Sh."000"	Sh."000"
Ordinary share capital (Sh.10 par value)		51,000
Retained profits		8,228
10% debentures		17,000
Interest on debentures paid	2,890	
Bank balances	5,780	
Inventory (1 January 2017):		
Raw materials	17,816	
Work-in-progress	748	
Finished goods	2,720	
Purchase of raw materials	11,424	
Carriage inwards	1,700	
Plant and machinery at cost	40,800	
Depreciation on plant and machinery (2017)	4,080	
Accumulated depreciation (31 December 2017)		8,160
Motor vehicles at cost	20,400	
Depreciation on motor vehicles (2017)	5,100	
Accumulated depreciation (31 December 2017)		10,200
Loose tools at cost	6,120	
Sales		120,000
Return inwards	4,400	
Royalties paid on tyres produced	6,520	
Factory wages: Direct	20,000	
Indirect	5,440	
Trade receivables and trade payables	12,410	7,616
Water and electricity	3,400	
Plant maintenance	1,088	
Motor vehicles running expenses	8,160	
Rent and insurance	7,888	
Administrative expenses	24,480	
Distribution costs	8,840	
	<u>222,204</u>	<u>222,204</u>

Additional information:

- The following expenses were to be apportioned as shown below:

Expense	Factory (%)	Administration (%)
Water and electricity	60	40
Rent and insurance	60	40
Motor vehicle running expenses	50	50
Depreciation on motor vehicles	50	50

- Inventories as at 31 December 2017 were as follows:

	Sh."000"
Raw materials	4,760
Finished goods	40,800
Work-in-progress	9,112
Loose tools	3,400

- Tyres manufactured during the year were transferred to the warehouse at Sh.98,600,000.
- As at 31 December 2017 accrued electricity amounted to Sh.680,000 while prepaid insurance amounted to Sh.544,000.

Required:

- Manufacturing account for the year ended 31 December 2017. (12 marks)
 - Income statement for the year ended 31 December 2017. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Outline four contents of the partnership deed. (4 marks)

(b) Sweet Biscuits Limited is a company that makes and sells a range of high quality biscuits to retail outlets. The company was formed with an authorised share capital of 100,000 ordinary shares of Sh.1 each and 30,000 10% preference shares of Sh.1 each.

The following is an extract of the company's trial balance as at 31 December 2017:

	Sh."000"	Sh."000"
Issued ordinary share capital		80,000
Issued 10% preference share capital		8,000
Biscuit baking machinery (at cost)	30,000	
Delivery vehicles (at cost)	22,000	
Trade receivables and trade payables	32,250	16,550
Cash	63,200	
12% Debentures		10,000
Inventory (1 January 2017)	22,350	
Sundry expenses	10,800	
Purchases and sales	132,250	198,575
Bad debts written off	2,250	
Salaries and wages	24,575	
Insurance of delivery vehicles	550	
Provision for depreciation:		
Biscuit baking machinery		14,000
Delivery vehicles		8,000
Interim preference dividend paid	400	
Net profit carried forward (1 January 2017)		5,500
Provision for doubtful debts (1 January 2017)		600
Debentures interest	600	
Total assets	<u>341,225</u>	<u>341,225</u>

Additional information:

- Inventory as at 31 December 2017 was valued at Sh.24,250,000.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Biscuit baking machinery	10	Straight line basis
Delivery vehicles	20	Reducing balance
- Prepaid insurance as at 31 December 2017 amounted to Sh.200,000.
- Sundry expenses owing as at 31 December 2017 amounted to Sh.400,000.
- The provision for doubtful debts is to be increased to Sh.900,000.
- The directors propose to pay an ordinary dividend of 5% to the ordinary shareholders and pay the remaining dividend due to the preference shareholders.
- Corporation tax of Sh.5,000,000 is to be provided for.
- Sh.3,000,000 is to be transferred to general reserve.

Required:

- Statement of comprehensive income for the year ended 31 December 2017. (8 marks)
 - Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Describe four criteria that could be used to establish whether financial statements are reliable. (4 marks)
- Discuss three techniques that could be adopted by public sector organisations while preparing their financial statements. (6 marks)

- (c) The treasurer of Milele Club has produced the following receipts and payments account for the year ended 30 April 2018:

Receipts	Sh. "000"	Payments	Sh. "000"
Balance at bank (1 May 2017)	716	Secretarial expenses	300
Sales of competition tickets	1,264	Rent	1,600
Members subscriptions	4,216	Meeting expenses	1,444
Donations	500	Electricity	538
		Competition prizes	1,030
		Equipment	800
		Stationery	574
		Balance at bank (30 April 2018)	<u>410</u>
	<u>6,696</u>		<u>6,696</u>

The following valuations are also available as at 30 April:

	2017 Sh. "000"	2018 Sh. "000"
Equipment (Original cost Sh.3,600,000)	2,600	2,920
Subscriptions in arrears	160	220
Electricity accrued	74	82
Inventory of stationery	108	92
Rent prepaid	400	480

Required:

- (i) Income and expenditure account for the year ended 30 April 2018. (5 marks)
- (ii) Statement of financial position as at 30 April 2018. (5 marks)

(Total: 20 marks)

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ATD LEVEL II
FINANCIAL ACCOUNTING

MONDAY: 27 November 2017.

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 Sunbird Limited on 30 September 2017:

	Sh. "000"	Sh. "000"
Issued and fully paid capital:		
Ordinary shares (Sh.20 par value)		80,000
10% preference shares (Sh.20 par value)		10,000
Share premium		20,000
General reserves		30,000
Retained profit		8,000
Inventory (1 October 2016)		8,000
Purchases and sales	221,000	400,000
Land and buildings (buildings Sh.40 million) at cost	131,000	
Equipment at cost	20,000	
Motor vehicles at cost	60,000	
Accumulated depreciation (1 October 2016):		
- Buildings		1,000
- Equipment		2,000
- Motor vehicles		12,000
Trade receivables and trade payables	80,000	60,000
Administrative expenses	44,600	
Distribution costs	80,000	
Rent income		10,000
Bad debts	3,600	
Provision for doubtful debts (1 October 2016)		3,000
10% Debentures		40,000
Interest on debentures paid	2,000	
Bank balance	<u>25,800</u>	<u>676,000</u>
	<u>676,000</u>	<u>676,000</u>

Additional information:

1. The following balances were available as at 30 September 2017:

	Sh. "000"
Inventory	9,000
Rent income owing	2,000
Estimated corporation tax	12,000
2. A half year interest on debentures is outstanding.
3. Provision for doubtful debts is to be provided at a rate of 5% on trade receivables.
4. The company's Chief Executive Officer (CEO) is entitled to a 10% bonus on profit before tax after charging such bonus.
5. Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	2.5	Straight line
Motor vehicles	20	Straight line
Equipment	10	Reducing balance
6. The directors have proposed that the preference dividend be paid and ordinary shareholders be paid Sh.5 per share after transferring Sh.5 million to general reserves.

Required:

- (a) Income statement for the year ended 30 September 2017. (12 marks)
- (b) Statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Jasmat Limited obtained a loan of Sh.2,140,000 from Bidii Bank to enable it acquire a plant. The loan is to be repaid in five equal annual installments of Sh.580,000 each, payable at the beginning of each year. The loan attracts an interest rate of 18% per annum.

Required:

- (i) A loan repayment schedule showing the principal and interest components. (3 marks)
- (ii) Loan repayment journal entries. (3 marks)
- (b) The following financial statements were extracted from the books of Furaha Limited for the year ended 30 September 2016 and 30 September 2017:

Income statement for the year ended 30 September:

	2016 Sh."000"	2017 Sh."000"
Sales (all on credit)	1,125	3,500
Cost of sales	<u>(450)</u>	<u>(2,100)</u>
Gross profit	675	1,400
Selling expenses	(187.5)	(337.5)
Bad debts	(22.5)	(170)
Depreciation	(72.5)	(260)
Interest	<u>(15)</u>	<u>(240)</u>
Retained profit	377.5	392.5
Retained profit brought down	<u>408.75</u>	<u>786.25</u>
Retained profit carried down	<u>786.25</u>	<u>1,178.75</u>

Statement of financial position as at 30 September:

	2016		2017	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non-current assets:				
Buildings		562.5		551.25
Machinery		<u>612.5</u>		<u>2,238.75</u>
		1,175.0		2,790.0
Current assets:				
Inventory	37.5		297.5	
Accounts receivable	103.75		728.75	
Bank	<u>15.00</u>	<u>156.25</u>	-	<u>1,026.25</u>
Total Assets		<u>1,331.25</u>		<u>3,816.25</u>
Financed by:				
Ordinary share capital		375.0		410.0
Retained profit		<u>786.25</u>		<u>1,178.75</u>
		1,161.25		1,588.75
Long term liabilities:				
12% Debentures		125.0		2,000
Current liabilities:				
Accounts payable	45		213.75	
Bank overdraft	-	<u>45.0</u>	<u>13.75</u>	<u>227.50</u>
Total equity and liabilities		<u>1,331.25</u>		<u>3,816.25</u>

Assume a 365-day year.

Required:

Compute the following ratios:

- | | | |
|-------|------------------------------------|--------------------------|
| (i) | Gross profit ratio. | (2 marks) |
| (ii) | Net profit margin ratio. | (2 marks) |
| (iii) | Return on capital employed (ROCE). | (2 marks) |
| (iv) | Current ratio. | (2 marks) |
| (v) | Quick ratio. | (2 marks) |
| (vi) | Debt-to-equity ratio. | (2 marks) |
| (vii) | Average collection period. | (2 marks) |
| | | (Total: 20 marks) |

QUESTION THREE

Susan Anyika started a business of manufacturing office supplies on 1 October 2016, but maintained rather inadequate accounting records. On 1 October 2016, Susan Anyika transferred Sh.4,000,000 to a new business bank account from her private bank account and purchased by cheque:

	Sh."000"
Business premises	2,000
Manufacturing equipment	1,920
Sales motor vehicles	880
Office equipment	120

During the year ended 30 September 2017, she paid by cheque:

	Sh."000"
Raw materials	2,800
Factory rates, water, electricity	224
Office rates, water, electricity	96
Her children school fees	120
Sundry office expenses	480

She paid in cash (out of her sales receipts):

	Sh."000"
Manufacturing wages	4,080
Sundry office expenses	316
Minor raw materials	164
Sales vehicles expenses	520
Personal drawings	480

Additional information:

- Cash paid into the bank after deducting these payments amounted to Sh.4,800,000.
- The following balances were available on 30 September 2017:

	Sh."000"
Cash in hand	32
Raw materials inventory at cost	240
Finished goods inventory at cost	280
Trade receivables for sales	520
Trade payables for materials	960
Accrued factory electricity	16
Prepaid factory rates	20
Owing for factory wages	56
Owing for sundry office expenses	88

Note: There was no work-in-progress

Additional information:

1. The expenses and revenues accrued evenly throughout the year.
2. Non-current assets are to be depreciated at the rate of 25% on cost per annum.
3. Inventory as at 30 September 2017 was valued at Sh.1,496,000.

Required:

- (a) Partners' income statement and appropriation account for the year ended 30 September 2017. (10 marks)
 - (b) Partners' capital account. (5 marks)
 - (c) Statement of financial position as at 30 September 2017. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight five features of not-for-profit organisations. (5 marks)
 - (b) Describe four functions of Public Accounts Committee (PAC) in your country. (4 marks)
 - (c) Explain four benefits that could accrue to a country that adopts International Financial Reporting Standards (IFRs). (8 marks)
 - (d) State three reasons why a business entity should make provision for depreciation on non-current assets. (3 marks)
- (Total: 20 marks)**
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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 22 May 2017.

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

Tim Tunda started a business of selling timber on 1 April 2016. Due to his limited accounting knowledge, he has not maintained proper books of account. Tim Tunda will pay you Sh.275,000 to prepare his books of account and establish a good accounting system. He has provided you with the following information as at 31 March 2017:

1. On 1 April 2016, he deposited Sh.6,000,000 into the business bank account. On the same day, he brought into the business a lorry with an estimated value of Sh.3,300,000 and an expected useful life of three years.
2. He borrowed Sh.2,000,000 at an interest rate of 15% per annum on 1 July 2016 from the bank. By 31 March 2017, no interest had been paid on the loan.
3. He paid salaries of Sh.3,600,000 by cheque for the year.
4. He had withdrawn Sh.90,000 from the bank every week from the business account for personal use during the year.
5. He purchased timber worth Sh.9,800,000 during the year and paid by cheque. Sh.790,000 worth of timber remained in stock as at 31 March 2017.
6. He purchased some equipment worth Sh.4,800,000 on the commencement of his business and paid by cheque. The equipment has an expected useful life of five years.
7. Rates for the year ending 30 June 2017 were Sh.180,000 but had not been paid.
8. Electricity bills paid through a bank standing order up to 31 January 2017 were Sh.1,200,000. Electricity bills for the remaining two months were estimated to be Sh.240,000.
9. Motor vehicle expenses amounting to Sh.910,000 and general expenses amounting to Sh.1,350,000 for the year ended 31 March 2017 were paid by cheque.
10. Insurance premium for the year ending 30 June 2017 of Sh.800,000 was paid by cheque.
11. The accountant sent invoices to customers for Sh.30,890,000 but only Sh.25,400,000 had been received through the bank by 31 March 2017. Debts totalling to Sh.85,000 were declared bad debts during the year.
12. Some customers paid for timber in cash during the year amounting to Sh.3,630,000 out of which Sh.2,800,000 was banked. Tim Tunda then withdrew Sh.495,000 in cash for personal use. The accountant used the rest of the cash to pay for general expenses except for Sh.150,500 which was left in the cash box as at 31 March 2017.
13. Assume that one year has 52 weeks.

Required:

- (a) Income statement for the year ended 31 March 2017. (12 marks)
 - (b) Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)

QUESTION TWO

Alice, Betty and Charles were in partnership sharing profits and losses in the ratio of 2:2:1 respectively after allowing for interest on capital at the rate of 10% per annum. On 30 June 2016, Charles retired from the partnership. Alice and Betty agreed to continue with the business sharing profits and losses in the ratio of 3:2 respectively after allowing for interest on capital of 10% per annum. For the purposes of retirement of Charles, the partners agreed on the following:

1. Goodwill to be valued at two years purchase of the average profit for the last three years. The profits for the last three years ended 31 December were as follows:

	Sh."000"
2013	460
2014	480
2015	560

2. Inventory was overvalued by Sh.400,000.
3. Equipment and furniture was valued at Sh.1,200,000.
4. Land and buildings were valued at Sh.3,600,000.

5. The partners decided that goodwill should not appear in the books of the partnership.
6. The total amount due to Charles on retirement was settled by cheque.
7. Assume that profits and losses accrued evenly on time basis throughout the year.

The partnership's trial balance as at 31 December 2016 was as follows:

	Sh."000"	Sh."000"
Capital accounts:		
Alice		2,400
Betty		2,000
Charles		1,800
Current accounts:		
Alice		1,200
Betty		1,000
Charles		400
Profit for the year ended 31 December 2016		4,000
Drawings:		
Alice	600	
Betty	600	
Charles	400	
Land and buildings	2,400	
Equipment and furniture	1,800	
Trade receivables and trade payables	2,200	3,000
Bank balance	3,400	
Inventory	<u>4,400</u>	
	<u>15,800</u>	<u>15,800</u>

Required:

- (a) Appropriation account in columnar form for the two six-month periods ended 30 June 2016 and 31 December 2016. (6 marks)
 - (b) Partners' capital accounts for the year ended 31 December 2016. (4 marks)
 - (c) Partners' current accounts for the year ended 31 December 2016. (4 marks)
 - (d) Partners' statement of financial position as at 31 December 2016. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

The following trial balance was extracted from the books of Jaza Kikapu, a small manufacturer of bags, as at 31 March 2017:

	Sh."000"	Sh."000"
Capital as at 1 April 2016		115,650
Sales		202,750
Cash at bank	5,000	
Buildings at cost	100,000	
Plant and machinery at cost	15,000	
Office equipment at cost	15,000	
Accumulated depreciation (1 April 2016):		
Buildings		4,000
Plant and machinery		6,000
Office equipment		2,850
Inventory (1 April 2016):		
Raw materials	7,500	
Work-in-progress	3,000	
Finished goods	11,000	
Loose tools	900	
Purchases:		
Raw materials	47,500	
Loose tools	3,750	
Carriage on raw materials	2,500	
Returns outward		2,500

	Sh."000"	Sh."000"
Water and electricity	20,000	
Rates and insurance	15,500	
General factory expenses	17,500	
Direct labour	47,000	
General office expenses	3,185	
Sales and distribution costs	8,750	
Royalties payable	3,000	
Drawings	<u>7,665</u>	
	333,750	<u>333,750</u>

Additional information:

1. Inventories as at 31 March 2017 were as follows:

	Sh."000"
Raw materials	5,000
Work-in-progress	3,750
Finished goods	12,925
Loose tools	1,350

2. Depreciation is to be provided as follows:

Asset	Rate	Basis
Buildings	2%	Cost
Plant and machinery	20%	Cost
Office equipment	10%	Net book value

3. Costs are apportioned between factory and administration as follows:

	Factory	Administration
Water and electricity	75%	25%
Rates and insurance	60%	40%
Depreciation on buildings	80%	20%

4. As at 31 March 2017, accrued water and electricity amounted to Sh.800,000 while rates and insurance prepaid amounted to Sh.500,000.
5. Finished goods are transferred to the trading account at cost plus 10%.

Required:

- (a) Manufacturing account for the year ended 31 March 2017. (10 marks)
- (b) Income statement for the year ended 31 March 2017. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

The following financial statements were extracted from the books of Upesi Haraka Ltd.:

Income statement for the year ended 31 December 2016

	Sh."000"
Revenue	23,400
Cost of sales	<u>(13,404)</u>
Gross profit	9,996
Distribution expenses	(4,620)
Administrative expenses	<u>(3,552)</u>
	1,824
Income from investment	30
Finance cost	<u>(114)</u>
Profit before tax	1,740
Tax expense	<u>(624)</u>
Net profit for the year	1,116

Statement of financial position as at 31 December:

	2016 Sh."000"	2015 Sh."000"
Assets		
Non-current assets	4,404	3,660
Current assets		
Inventory	2,220	2,460
Trade receivable	2,040	1,620
Interest receivable	24	54
Short-term investments	300	-
Cash at bank	450	-
Cash in hand	<u>42</u>	<u>30</u>
	<u>5,076</u>	<u>4,164</u>
Total assets	9,480	7,824
Equity and liabilities		
Capital and reserves		
Ordinary shares of Sh.10 each	2,178	1,800
Share premium	534	552
Revaluation reserve	300	-
Retained profits	<u>378</u>	<u>(420)</u>
	3,390	1,932
Non-current liabilities		
10% loan	-	240
5% loan	<u>1,974</u>	<u>2,094</u>
	1,974	2,334
Current liabilities		
Bank overdraft	-	420
Trade payables	3,300	2,400
Current tax	600	540
Interest payable	36	198
Other payables	<u>180</u>	<u>-</u>
	<u>4,116</u>	<u>3,558</u>
Total equity and liabilities	9,480	7,824

Additional information:

- The total depreciation charged on non-current assets during the year ended 31 December 2016 was Sh.522,000.
- Land and buildings were revalued during the year ended 31 December 2016.
- A machine with a net book value of Sh.450,000 was disposed of during the year for Sh.588,000.
- Upesi Haraka Ltd. paid an interim dividend of Sh.318,000 during the year.
- On 1 January 2016, Upesi Haraka Ltd. made a bonus issue of one share for every one hundred (100) shares held. All issued shares qualified for the bonus issue.
- On 1 March 2016, Upesi Haraka Ltd. issued 36,000 ordinary shares at a par value of Sh.10 per share. All the proceeds were received in cash.
- Proceeds from the issue of shares were used to fully liquidate the 10% loan and part of the 5% loan (principal amounts only).

Required:

Statement of cash flows for the year ended 31 December 2016, in accordance with the requirements of the International Accounting Standard (IAS) 7, "Statement of Cash Flows". (20 marks)

QUESTION FIVE

- (a) Explain two differences between:
- "Receipts and payments account" and "income and expenditure account" (4 marks)
 - "Debentures" and "equity shares". (4 marks)
- (b) Outline six features of a good accounting software. (6 marks)
- (c) Discuss three functions of a parliamentary Public Investments Committee. (6 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 23 May 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

- (a) (i) Explain the term "conceptual framework for financial reporting". (2 marks)
- (ii) Outline three main purposes of the conceptual framework for financial reporting. (6 marks)
- (b) On 1 January 2015, the property, plant and equipment balances of Kiatu Kizuri Ltd. were as follows:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Freehold land and buildings	28,608	-	28,608
Plant and machinery	28,080	15,124.80	12,955.20
Motor vehicles	15,120	9,216	5,904

Additional information:

- An item of plant and machinery purchased on 1 July 2011 for Sh.4,032,000 was sold on 1 April 2015 for Sh.2,400,000.
- The buildings represent Sh.15,408,000 of the total cost of freehold land and buildings. The buildings were all completed on 1 July 2011.
- It has been decided that buildings should be charged depreciation at the rate of 2.5% per annum on cost.
- Included in the plant and machinery, is a machine which originally cost Sh.5,400,000 and which is already fully depreciated but not expected to yield any material amount on either use or resale.
- A new machine costing Sh.4,200,000 was purchased on 31 August 2015.
- A motor vehicle purchased on 1 May 2012 for Sh.5,040,000 was traded in on 1 January 2015 at a value of Sh.2,928,000 in part exchange for a new vehicle costing Sh.7,200,000.
- A second hand machine costing Sh.5,400,000 was purchased from R. R. Ltd. on 30 June 2015. R. R. Ltd. had used the machine for 3 years and had purchased it at Sh.7,200,000.
- The company uses the straight line method of depreciation as follows:

Asset	Rate per annum
Plant and machinery	10%
Motor vehicles	20%
- It is the company's policy to make depreciation charge proportionate to the time of usage of the asset.

Required:

- Property, plant and equipment movement schedule for the year ended 31 December 2015. (12 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Explain the difference between the following terms:
- (i) "Capital reserves" and "revenue reserves". (2 marks)
- (ii) "Bonus issue of shares" and "rights issue of shares". (2 marks)
- (iii) "Cumulative preference shares" and "non-cumulative preference shares". (2 marks)
- (b) Zodiac Limited has an authorised share capital of Sh.4,000,000 divided into 375,000 ordinary shares of Sh.10 each and 25,000 9% preference shares of Sh.10 each.

The trial balance of the company as at 31 March 2016, after preparation of the income statement, was as follows:

	Dr Sh.	Cr Sh.
Ordinary share capital (Sh.10 par value)		3,700,000
9% preference share capital (Sh.10 par value)		180,000
Premises	3,500,000	
Inventories	316,050	
Plant and machinery at cost	1,400,000	
Provision for depreciation:		
Plant and machinery		462,000
Revenue reserves as at 31 March 2016		650,000
Accrued electricity		48,000
Cash in hand	37,950	
Bank overdraft		52,000
General reserves		350,000
Accrued rent income	<u>188,000</u>	
	<u>5,442,000</u>	<u>5,442,000</u>

Additional information:

1. Revenue reserves as at 1 April 2015 were Sh.112,000.
2. The directors of the company have recommended that:
 - An ordinary dividend of Sh.0.70 per share be paid.
 - Sh.150,000 be transferred to the general reserves.
 - Provision for preference dividend be made.

Required:

- (i) Appropriation account for the year ended 31 March 2016. (6 marks)
 - (ii) Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss three limitations of financial ratios. (6 marks)
- (b) The following information has been extracted from the books of Silver Limited as at 31 December 2015:

Income statement for the year ended 31 December 2015:

	Sh. "000"	Sh. "000"
Sales		240,000
Less cost of sales		<u>112,000</u>
Gross profit		128,000
Less expenses:		
Administrative expenses	19,000	
Distribution expenses	<u>23,400</u>	<u>42,400</u>
Profit before tax		85,600
Taxation		<u>20,800</u>
Net profit for the year		<u>64,800</u>

Statement of financial position as at 31 December:

	2015 Sh. "000"	2014 Sh. "000"
Non-current assets		
Property, plant and equipment at cost	95,600	70,400
Less: Accumulated depreciation	<u>(39,000)</u>	<u>(38,000)</u>
	<u>56,600</u>	<u>32,400</u>
Current assets		
Inventories	36,000	8,000
Accounts receivable	106,800	34,400
Prepayments	1,600	1,200
Cash at bank and in hand	-	<u>2,400</u>
	<u>144,400</u>	<u>46,000</u>
Total assets	<u>201,000</u>	<u>78,400</u>

Current liabilities	Sh."000"	Sh."000"
Bank overdraft	64,800	-
Accounts payable	40,000	24,000
Accruals	4,000	3,200
Taxation	<u>20,800</u>	<u>12,800</u>
	<u>129,600</u>	<u>40,000</u>
Non-current liabilities		
15% loan notes	<u>3,000</u>	<u>2,400</u>
Total liabilities	<u>132,600</u>	<u>42,400</u>
Net assets	<u>68,400</u>	<u>36,000</u>
Equity		
Ordinary share capital (Sh.200 par value)	20,000	20,000
12% preference share capital (Sh.200 par value)	4,000	4,000
Retained profits	<u>44,400</u>	<u>12,000</u>
Total equity	<u>68,400</u>	<u>36,000</u>

Additional information:

- The taxation balances shown above are agreed with the revenue department.
- During the year ended 31 December 2015, non-current assets originally costing Sh.22,000,000 were sold for Sh.4,000,000. The accumulated depreciation on these assets as at the date of disposal was Sh.15,200,000.

Required:

Statement of cash flows for the year ended 31 December 2015 using the indirect method in accordance with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(14 marks)

(Total: 20 marks)

QUESTION FOUR

The following is the receipts and payments account of Vijana Youth Club for the year ended 30 April 2016:

Receipts	Sh.	Payments	Sh.
Balance at bank (1 May 2015)	23,400	Wages	72,000
Members' subscriptions	498,500	Rent (15 months to 31 July 2016)	246,000
Entrance fees	320,600	Short-term deposits with Savings and Loans Limited	350,000
Bar sales	608,400	Barman's salary	54,000
Competition receipts	258,200	Grounds upkeep	45,000
		Repairs to pavilion	33,000
		Stationery and printing	38,400
		Competition prizes	144,000
		Water and electricity	50,400
		Secretarial honoraria	180,000
		Rates	12,000
		Bar supplies	423,000
		Balance carried forward	<u>61,300</u>
	<u>1,709,100</u>		<u>1,709,100</u>

Additional information:

- The secretarial honoraria paid excludes Sh.9,000 for travelling allowance.
- Interest earned on the deposit with Savings and Loans Limited for the year to 30 April 2016 amounted to Sh.17,500.
- The barman was also to receive a bonus of 5% of the net income of the bar after charging such bonus.
- The pavilion and equipment are to be depreciated at the rate of 10% per annum.
- From the register of members, unpaid subscriptions as at 30 April 2016 amounted to Sh.51,000 while subscriptions received during the year included Sh.25,500 in respect of the previous year and Sh.17,000 in respect of year starting 1 May 2016.
- The assets and liabilities of the club as at 1 May 2015 were as follows:
 - Land Sh.6,500,000
 - Pavilion and equipment Sh.2,500,000.
 - Bar inventory Sh.108,000.
 - Competition prizes in hand Sh.48,000.
 - Bar supplies owing Sh.42,000.
- The following balances of assets and liabilities of the club were relevant as at 30 April 2016:
 - Bar inventory Sh.96,000.

- Pre-paid competition prizes Sh.24,000.
- Bar supplies owing Sh.56,400.

Required:

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

QUESTION FIVE

- (a) (i) Distinguish between "full accrual basis of accounting" and "modified accrual basis of accounting" as used in public sector accounting. (4 marks)
- (ii) Describe four functions of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) Mwai, Mwaka and Mwaki are partners in the business of selling motorcycles. The trial balance given below was extracted from the books of the partnership as at 31 December 2015:

	Sh."000"	Sh."000"
Capital accounts: Mwai		4,000
Mwaka		3,000
Mwaki (Admitted 1 July 2015)		2,000
Current accounts: Mwai (1 January 2015)		230
Mwaka (1 January 2015)	40	
Sales		15,542
Purchases	12,000	
Returns inwards	230	
Discounts allowed and discounts received	80	120
Land and building	6,000	
Motor vehicle	2,400	
Furniture and fixtures	2,600	
Provision for depreciation (1 January 2015) - Building		200
- Motor vehicle		960
- Furniture and fixtures		320
Drawings - Mwai	200	
- Mwaka	180	
Salaries and wages	840	
General administrative expenses	112	
Trade debtors and trade creditors	720	960
Insurance	90	
Rent and rates	480	
Cash at bank	1,000	
Cash in hand	160	
Inventory (1 January 2015)	200	
	<u>27,332</u>	<u>27,332</u>

Additional information:

- The expenses and revenues accrued evenly throughout the year.
- Prior to his admission as a partner on 1 July 2015, Mwaka was the Sales Manager earning a salary of Sh.20,000 per month (included in salaries).
- Depreciation is to be provided as follows:

Asset	Rate per annum
• Building	2½% on cost
• Motor vehicle	20% on straight line basis
• Furniture and fixtures	10% on cost
- Included in the value of land and building is Sh.2,000,000 which is the cost of land. For the purpose of admission of Mwaki, land was revalued upwards to Sh.3,000,000.
- Mwaki was admitted on 1 July 2015 under the following arrangement:
 - To introduce capital of Sh.2,000,000.
 - New profit and loss sharing ratios are 3:2:2 for Mwai, Mwaka and Mwaki respectively from 1 July 2015.

Before the admission of Mwaki, Mwai and Mwaka were sharing profits and losses equally. Mwaki was to bring in a goodwill of Sh.350,000 (no entry or adjustment for the goodwill has been made yet). Partners agreed to write off this goodwill.

6. The partners are entitled to:
 - Interest of 4% per annum on capital balances.
 - Salaries - Mwai Sh.15,000 per month and Mwaki Sh.10,000 per month.
7. Inventory as at 31 December 2015 was valued at Sh.420,000.

Required:

Partners' income statement and appropriation account for the year ended 31 December 2015.

(12 marks)

(Total: 20 marks)

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ATD LEVEL II

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) Identify the components of a complete set of financial statements. (4 marks)

(b) The following balances were extracted from the books of Chavakali Limited as at 31 August 2015:

	Sh. "000"
Sales	60,000
Purchases	32,850
Trade payables	4,725
Freehold premises	42,000
Motor vehicle at cost	7,000
Furniture and equipment	16,500
Provision for depreciation: Motor vehicles	4,500
Furniture and equipment	7,500
Trade receivables	9,522
Allowance for doubtful debts	612
Irrecoverable debts	725
Returns inwards	507
Administrative expenses	5,370
Selling and distribution costs	4,450
Bank charges	326
Investment income	1,323
Debenture interest	300
8% debentures	7,500
Interim preference dividend	450
10% Sh.10 preference shares.	9,000
Sh.10 ordinary shares (called up and fully paid)	25,000
Share premium	8,750
Retained profits	5,500
Inventory 1 September 2014	9,436
Cash and bank balance	4,974

Additional information:

- Allowance for doubtful debts is to be adjusted to 5% of the debtors balance.
- Bank charges of Sh.60,000 were outstanding as at 31 August 2015 while Sh.550,000 administrative expenses were prepaid. Debenture interest has only been paid for the first half of the year.
- Inventory as at 31 August 2015 was valued at Sh.11,350,000.
- Freehold premises were revalued upwards by Sh.18,000,000.
- Depreciation is to be provided at 10% on the written down values of furniture and fittings as well as on motor vehicles.
- The final preference share dividend is to be provided for and ordinary share dividend of Sh.1 per share has been declared for the year ended 31 August 2015.
- Taxation on the profits is estimated at Sh.7,500,000.

Required:

- Income statement for the year ended 31 August 2015. (8 marks)
- Statement of financial position as at 31 August 2015. (8 marks)

(Total: 20 marks)

QUESTION TWO

Saidi Kazungu is the sole distributor of Y-tech mobile phones in Kisiwani. Under an agreement with his suppliers, he receives a commission of 1% of his purchases every September for the previous period.

In a fire incident in July 2015, Saidi lost inventory cost Sh.6,000,000, unknown amount of cash as well as most of his accounting records.

However, after careful investigations, the following information has been obtained covering the year ended 31 August 2015:

1. Assets and liabilities as at 31 August 2014 were as follows:

	Sh."000"
Buildings: Cost	15,000
Provision for depreciation	9,000
Furniture and fittings: Cost	7,500
Provision for depreciation	3,000
Inventory	4,800
Agency commissions due	450
Trade receivables	9,450
Prepaid insurance expense	180
Bank and cash balance	6,400
Trade payables	6,300
Accrued salaries	350

2. Saidi Kazungu has been notified that he will receive an agency commission of Sh.640,000 on 5 September 2015.

3. Inventory as at 31 August 2015 was valued at Sh.6,300,000.

4. The insurance company admitted a claim for Sh.4,200,000 for the inventory lost through the fire incident but had not paid this amount as at the end of the year.

5. Trade payables as at 31 August 2015 amounted to Sh.14,000,000 while trade receivables balance stood at Sh.9,700,000.

6. Discounts allowed amounted to Sh.2,400,000 while discounts received were Sh.1,800,000.

7. His annual insurance expense for the year was billed at Sh.960,000.

8. Accrued salaries at the end of the year amounted to Sh.480,000.

9. Depreciation is provided annually at the following rates:

- Buildings 10% on cost
- Furniture and fittings 20% on cost

10. In addition to the payments for purchases, other payments were:

	Sh."000"
Salaries	3,500
Drawings	2,000
Furniture	18,000
Insurance	900

11. His cash and bank balance as at 31 August 2015 was confirmed to be Sh.4,800,000.

12. Kazungu has always obtained a gross profit of 40% on all sales.

Required:

(a) Ascertain the amount of cash lost in the fire incident. (4 marks)

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

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

(Total: 20 marks)

QUESTION THREE

Eastlands Fitness Club came into existence on 1 May 2014 with 40 members. Each member agreed to pay Sh.1,000 per month membership fee and Sh.2,000 non-refundable entrance fee.

The club rented Eastlands social hall and sports ground from Nairobi City County for Sh.30,000 per month.

The social hall was converted to a Gymnasium with bar facilities.

Other cash receipts and payments from 1 May 2014 to 30 April 2015 were as follows:

Sh.

Receipts:

Membership fees	??
Entrance fees	120,000

	Sh.
Bar cash sales	3,400,000
Bar receivables	965,000
Sale of worn out equipment	7,000

Payments:

Instructors' salary	384,000
Rent expense	420,000
Wages for bar staff	720,000
Bar creditors	1,800,000
Bar glassware	556,000
Furniture and fittings	540,000
Repairs and maintenance	78,000
Aerobics equipment	205,000
Fitness competition sponsorship	44,000
Water and electricity	116,000

Additional information:

- Twenty new members joined the club during the year.
- Ten members had their subscriptions in arrears for the month of April 2015 while four other members had arrears for both March and April 2015. The arrears for the later group were considered irrecoverable and were thus written off.
- Eight members had already paid their subscriptions for May 2015.
- Bar inventory as at 30 April 2015 amounted to Sh.286,000.
- Bar glassware was valued at Sh.205,000 as at 30 April 2015.
- Furniture and fittings are to be depreciated at 12.5% per annum on cost.
- The aerobics equipment were disposed of at a loss of Sh.3,000. The remaining equipment are to be depreciated at 33 $\frac{1}{3}$ % per annum on the cost price.
- Bar payables amounted to Sh.54,000 as at 30 April 2015.
- Some members are yet to settle their dues with the bar amounting to Sh.75,000.
- The club received a donation of Sh.5,000,000 which they utilised in constructing a swimming pool.

Required:

- Bar income statement for the year ended 30 April 2015. (4 marks)
 - Statement of income and expenditure for the year ended 30 April 2015. (8 marks)
 - Statement of financial position as at 30 April 2015. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- Highlight three main differences between cash basis of accounting and accrual basis of accounting as applied in public sector accounts. (6 marks)

- The following are extracts from the final accounts of Callabar Limited over the last two years:

	2014	2015
	Sh.	Sh.
Sales (all on credit)	1,350,000	1,668,000
Purchases (all on credit)	432,000	570,000
Cost of sales	420,000	544,000
Gross profit	930,000	1,124,000
Net profit before tax	260,000	400,000

Statements of financial position as at 31 August:

	2014	2015
Assets	Sh.	Sh.
Non-current assets	1,240,000	1,600,000
Current assets		
Inventory	22,000	48,000
Trade receivables	190,000	212,000
	<u>212,000</u>	<u>260,000</u>
Total assets	<u>1,452,000</u>	<u>1,860,000</u>

	2014	2015
	Sh.	Sh.
Capital and liabilities		
Ordinary share capital	600,000	600,000
Retained profits	<u>448,000</u>	<u>748,000</u>
	<u>1,048,000</u>	<u>1,348,000</u>
Long term liabilities		
10% debentures	200,000	180,000
Current liabilities		
Trade payables	106,000	138,000
Taxation	20,000	40,000
Bank overdraft	<u>78,000</u>	<u>154,000</u>
	<u>1,452,000</u>	<u>1,860,000</u>

Additional information:

Inventory and trade receivables balance as at 1 September 2013 were Sh.18,000 and Sh.196,000 respectively.

Required:

For each year:

- (i) Calculate two profitability ratios. (4 marks)
 - (ii) Calculate two liquidity ratios. (4 marks)
 - (iii) Calculate two efficiency ratios. (4 marks)
 - (iv) Comment on the financial performance of the company over the two years. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) In the context of accounting for manufacturing enterprises, expenses are classified as either direct costs, indirect costs and administrative overheads.

Required:

State how the following expenses should be classified. Justify your answer in each case.

- (i) Carriage inwards on raw materials. (1 mark)
- (ii) Rent and rates for the premises. (1 mark)
- (iii) Salaries to products quality standards staff. (1 mark)
- (iv) Royalties. (1 mark)
- (v) Advertising costs. (1 mark)
- (vi) Electricity bills. (1 mark)

- (b) Concrete Solutions Ltd. makes its accounts on 30 June every year.

On 30 June 2014, the company's statement of financial position included the following values for non-current assets:

	Cost	Accumulated depreciation
	Sh. "000"	Sh. "000"
Land and buildings	40,000	Nil
Plant and machinery	36,000	16,000
Motor vehicles	12,000	4,000
Furniture and fittings	2,000	800

The company's policy is to charge depreciation at the following rates:

Asset	rate
Land and buildings	Nil
Plant and machinery	10% on cost
Motor vehicle	15% on cost
Furniture and fittings	20% on reducing balance basis

A full years charge is made in the year of acquisition, none in the year of disposal.

During the year ended 30 June 2015, the following transactions took place:

1. The company decided to adopt a policy of revaluing its land and buildings. Value Sure Consultants were engaged for this purpose and revalued the land and buildings at Sh.60,000,000.
2. A new item of plant and machinery was purchased for Sh.10,000,000. Part of the purchase price was settled by exchanging another item of plant at an agreed value for Sh.4,500,000. The plant which was given in part exchange had cost Sh.6,000,000 on 1 July 2012.
3. Included in the furniture and fittings is an item which originally cost Sh.300,000 and which is already fully depreciated and not expected to realise much from use or disposal.
4. Imported a lorry from Mitsubishi Motor Corporation Japan at a cost of Sh.3,000,000 and incurred a further cost Sh.1,500,000 on customs duty and clearing the lorry.

Required:

Property, plant and equipment movement schedule for the year ended 30 June 2015. (10 marks)

- (c) Moody Limited received a Sh.2,000,000 five year loan on 1 January 2015. The loan is repayable in 10 semi-annual installments on each 1 July and 1 January.

The amount payable per instalment is Sh.125,000; Sh.100,000 being repayment of the principal and Sh.25,000 being the interest.

Required:

Pass journal entries to record:

- (i) Receipt of the loan. (1 mark)

- (ii) Payment of the first instalment on 1 July 2015. (3 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

TUESDAY: 17 November 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

Juma Makori is a businessman based in the central business district. He does not maintain a complete set of accounting records. The following balances are available from his books of account as at 31 May 2014 and 31 May 2015:

	31 May 2014	31 May 2015
	Sh. "000"	Sh. "000"
Machinery (cost)	3,240	3,240
Equipment (net book value)	1,620	1,998
Motor vehicles (cost)	1,270	1,270
Trade receivables	?	1,296
Trade payables	864	?
Inventories	?	91.8
Bank loan	540	432
Cash	864	?
Outstanding electricity bills	40.5	67.5
Unexpired insurance	32.4	24.3

The cash transactions during the year ended 31 May 2015 were as follows:

	Sh. "000"
Collection from customers	7,722
Payment to suppliers	3,294
Cash purchases	864
Electricity bills	229.5
Rent	324
Insurance	97.2
Salaries and wages	202.5
Sale of equipment (net book value Sh.270,000)	378
Drawings	405
Interest on loan	48.6
Acquisition of equipment	810

Additional information:

- Cash sales amounted to 10% of total sales.
- Credit sales amounted to Sh.7,290,000.
- Credit purchases amounted to 80% of total purchases.
- All sales are at a profit mark up of $33\frac{1}{3}\%$.
- The suppliers allowed him a discount of Sh.54,000 and he extended a discount to his customers of Sh.40,500.
- Outstanding debts of Sh.121,500 proved irrecoverable and were written off.
- Depreciation is to be provided as follows:

Asset:	Rate per annum:
Machinery	15% on cost
Motor vehicles	20% on cost

Required:

- Income statement for the year ended 31 May 2015. (12 marks)
 - Statement of financial position as at 31 May 2015. (8 marks)
- (Total: 20 marks)

QUESTION TWO

Alex, Ben and Caro are in partnership sharing profits and losses equally after allowing for interest on capital at 5% per annum to the partners, and a salary of Sh.20,000 per month to Ben.

The following balances were extracted from their books as at 30 September 2015:

	Sh."000"
Sales	20,000
Inventory (1 October 2014)	3,000
Purchases	10,300
Operating expenses	6,400
Capital accounts: Alex	2,500
Ben	2,000
Caro	1,000
Current accounts: Alex	200
Ben	300
Caro	200
Loan: Ben (interest at 10% per annum)	1,000
Caro (interest at 10% per annum)	2,000
Land	1,000
Buildings	5,000
Plant and machinery at cost	7,000
Accumulated depreciation on plant and machinery (30 September 2015)	4,000
Cash at bank (credit)	1,100
Accounts receivable	4,000
Accounts payable	3,300
Drawings: Alex	300
Ben	400
Caro	200

Additional information:

- On 1 April 2015, the terms of the partnership agreement were changed. The new terms provided for:
 - Profit and losses sharing ratio of 5:3:2 for Alex, Ben and Caro respectively.
 - Interest on capital at 5% per annum.
 - Salaries of Sh.10,000 per month each to Ben and Caro.
- For the purpose of the change, goodwill was valued at Sh.1,200,000 and was to be written off immediately while the land and buildings were revalued at Sh.2,000,000 and Sh.6,400,000 respectively.
- Interest on loans had not been repaid.
- Closing inventory as at the year-end was valued at Sh.2,400,000.
- Sales include credit sales of Sh.600,000 in respect of two items sold on the basis of confirmation by the customers. The items had each cost Sh.100,000.

Required:

- Income statement and appropriation account for the year ended 30 September 2015. (8 marks)
 - Partners' capital and current accounts. (6 marks)
 - Statement of financial position as at 30 September 2015. (6 marks)
- (Total: 20 marks)

QUESTION THREE

Mina Ltd. is a company that manufactures electronic equipment. The following trial balance had been extracted from the books of the company as at 31 August 2015:

	Sh."000"	Sh."000"
Ordinary shares (Sh.50 each)		400,000
10% redeemable preference shares (Sh.100 each)		200,000
Retained profits (1 September 2014)		42,475
Land	40,000	
Buildings: Cost	130,000	
Accumulated depreciation (1 September 2014)		10,000
Plant and machinery	730,000	
Office equipment	110,000	

	Sh."000"	Sh."000"
Motor vehicles	200,000	
Accumulated depreciation (1 September 2014):		
Plant		224,500
Office equipment		24,500
Motor vehicles		80,000
Trade receivables and trade payables	500,000	356,226
Allowance for doubtful debts		1,000
Manufacturing wages	501,400	
Inventory (1 September 2014):		
Raw materials	70,000	
Work-in-progress	126,000	
Finished goods	250,000	
Transport expenses	85,013	
Returns inward	15,106	
Purchases (raw materials)	518,600	
Sales		2,600,147
Bank		50,020
Directors' salaries	60,114	
Maintenance (plant)	30,102	
Rent	40,063	
Advertising	190,048	
Rates	50,171	
Insurance	20,116	
Office salaries	166,013	
Light and heat	46,027	
Factory power	30,014	
Bank interest	7,070	
Interim dividends on preference shares	10,000	
General administrative expenses	63,011	
	<u>3,988,868</u>	<u>3,988,868</u>

Additional information:

1. Depreciation and respective allocation is provided as follows:

Asset	Rate	Basis	Expense
Buildings	2%	Cost	Administration
Plant and machinery	15%	Cost	Factory
Office equipment	10%	Cost	Administration
Motor vehicles	25%	Reducing balance	Distribution

2. Rates have been prepaid by Sh.3,140,000 and insurance premium of Sh.3,360,000 had been paid for the year to 30 November 2015.

3. Accrued expenses as at 31 August 2015 were as follows:

	Sh."000"
Light and heat	1,214
Rent	2,321

4. Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and administration.
5. The directors' salary includes Sh.20 million paid to the production directors and office salaries of Sh.64,237,000 paid to salesmen.
6. Allowance for doubtful debts is to be maintained at 1% of the trade receivables as at 31 August 2015.
7. Inventories as at 31 August 2015 were as follows:

	Sh."000"
Raw materials	56,200
Work in progress	47,190

8. The factory completed 1,500 units and only 100 units were in the inventory as at 31 August 2015.
9. Corporation tax for the year is estimated at Sh.100,000,000.

Required:

- (a) Manufacturing account for the year ended 31 August 2015. (10 marks)
(b) Income statement for the year ended 31 August 2015. (10 marks)
(Total: 20 marks)

QUESTION FOUR

The following are the statements of financial position for Crystal Ltd. as at 31 October 2014 and 31 October 2015:

	2015 Sh."000"	2014 Sh."000"
Non-current assets:		
Freehold land	16,800	12,000
Plant and machinery (net book value)	5,860	6,350
Goodwill	2,800	2,900
Investments at cost	<u>3,600</u>	<u>3,750</u>
	<u>29,060</u>	<u>25,000</u>
Current assets:		
Inventories	10,050	8,700
Trade receivables	6,140	7,800
Investments	1,710	840
Cash at hand and bank	<u>200</u>	<u>430</u>
	<u>18,100</u>	<u>17,770</u>
Total assets	<u>47,160</u>	<u>42,770</u>
Financed by:		
Capital and reserves		
Authorised, issued and fully paid ordinary shares of Sh.10 each	18,000	15,000
Share premium	1,500	750
Revaluation reserve	4,500	-
Revenue reserves	<u>6,150</u>	<u>5,250</u>
	<u>30,150</u>	<u>21,000</u>
Current liabilities:		
Bank overdraft	2,390	6,540
Trade payables	5,850	5,250
Proposed dividends	450	380
Corporation tax	<u>820</u>	<u>600</u>
	<u>9,510</u>	<u>12,770</u>
15% debentures	<u>7,500</u>	<u>9,000</u>
Total equity and liabilities	<u>47,160</u>	<u>42,770</u>

The income statement for the year ended 31 October 2015 was as follows:

	Sh."000"	Sh."000"
Operating profit before tax		2,400
Corporation tax		<u>(900)</u>
Profit after tax		1,500
Dividends: Interim paid	150	
Final proposed	<u>450</u>	<u>600</u>
		<u>900</u>

Additional information:

- The investment portfolio was reduced by selling one block of shares at a profit of Sh.160,000.
- During the year, a plant with a net book value of Sh.750,000 was sold for Sh.1,470,000. The plant had originally cost Sh.3,000,000.
- The profit for the year was after charging:
 - Depreciation on plant and machinery of Sh.1,150,000.
 - Amortisation of goodwill of Sh.420,000.

Required:

Statement of cash flows for the year ended 31 October 2015, in accordance with the requirements of International Accounting Standard (IAS) 7, "Statement of Cash Flows". (20 marks)

QUESTION FIVE

(a) Explain the functions of the following committees in relation to public sector accounting:

- Public accounts committee. (2 marks)
- Committee of ways and means. (2 marks)

(b) Describe four uses of share premium.

(8 marks)

(c) Examine four benefits of International Accounting Standards (IASs).

(8 marks)

(Total: 20 marks)

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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 1 August 2022. Morning paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

The treasurer of Union Club does not keep a complete set of accounting records. However, the following balances have been extracted from Union Club's records:

1. Summary of the bank statement for the year ended 31 December 2021:

	Sh."000"		Sh."000"
Balance brought forward (1 January 2021)	2,960	Building extension	13,000
Bar sales	6,640	Dinner dance expenses	7,000
Seminar rentals	3,160	Equipment	6,000
Investment income	4,940	Bar purchases	2,520
Sale of equipment	1,240	Salaries and wages	9,080
Dinner dance tickets	11,960	Other staff expenses	2,580
Subscriptions: 2020	3,160	Visiting speakers expenses	8,880
2021	50,800	Investment purchases	9,000
2022	1,340	General expenses	3,160
		Repairs and maintenance	5,920
		Balance carried forward	<u>19,060</u>
	<u>86,200</u>		<u>86,200</u>

2. Assets and liabilities other than balance at bank:

	1 January 2021	31 December 2021
	Sh."000"	Sh."000"
Land and buildings	49,000	?
Equipment at cost	6,500	?
Accumulated depreciation on equipment	1,900	?
Furniture and fittings at cost	6,800	?
Accumulated depreciation on furniture and fitting	2,500	?
Subscriptions arrears: 2020	3,700	?
2021	-	6,480
Subscriptions prepaid: 2021	2,480	?
2022	1,080	?
Bar inventory	5,080	6,580
Accrued salaries and wages	460	560
Unpaid dinner dance tickets	-	580
Investment	51,000	?
Bar purchases payables	3,360	4,680
Unpaid building extension works	-	1,700
Building extension fund	5,000	?

Additional information:

1. Equipment with original cost of Sh.1,200,000 was sold during the year for Sh.1,240,000 in cash. The accumulated depreciation on this equipment at 1 January 2021 amounted to Sh.380,000. Another equipment with an original cost of Sh.500,000 was sold for Sh.280,000 to a club member. He had not paid the club this money as at 31 December 2021. The accumulated depreciation on this equipment amounted to Sh.140,000.

2. Depreciation for the year ended 31 December 2021 is to be provided as follows:

Asset	Sh. "000"
Equipment	1,620
Furniture and fittings	680
3. Subscriptions in arrears are written off after 12 months.
4. The building extension fund was not utilised during the year ended 31 December 2021.

Required:

- (a) Bar income statement for the year ended 31 December 2021. (4 marks)
 - (b) Income and expenditure account for the year ended 31 December 2021. (8 marks)
 - (c) Statement of financial position as at 31 December 2021. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

John, Abel and Raymond have been trading as partners under the name JAR Enterprises. They have been sharing profits and losses in the ratio 4:3:3 respectively.

Additional information:

1. On 30 June 2021, John retired from the partnership. From that date, Abel and Raymond were to share profits and losses equally. Profits and losses accrue evenly throughout the year.
2. Interest is to be credited at 5% per annum in the partner's capital accounts. No interest is to be charged on drawings.
3. On John's retirement, goodwill was valued at Sh.11,100,000. This was to be written off immediately.
4. Upon John's retirement, revaluation of assets was carried out by a valuer. The assets were revalued as follows:

Asset	Sh. "000"
Land and buildings	10,000
Furniture and fittings	1,000

5. The amount due to John from his capital account is to receive interest at the rate of 6% per annum from the date of retirement until it is repaid. As at 31 December 2021, both the amount in his capital account and current account had not been repaid.
6. The following trial balance was extracted from the books of JAR Enterprises as at 31 December 2021:

	Sh. "000"	Sh. "000"
Land and buildings	8,000	
Accumulated depreciation on buildings		2,000
Furniture and fittings	1,500	
Accumulated depreciation on furniture and fittings		800
Accounts receivable and accounts payable	2,000	5,200
Inventory	12,500	
Bank	4,000	
Operating expenses	20,000	
Gross profit		30,400
Capital accounts:		
John		5,000
Abel		5,000
Raymond		6,000
Drawings:		
John	1,600	
Abel	2,400	
Raymond	2,400	
	<u>54,400</u>	<u>54,400</u>

7. The operating expenses comprised of the following:

	Sh. "000"
Rent and insurance	2,000
Salaries and wages	12,400
Bad debts	800
Office expenses	1,200
Repairs and maintenance	3,600
8. As at 31 December 2021, accrued rent amounted to Sh.650,000, while office expenses of Sh.135,000 and repairs and maintenance of Sh.1,080,000 had been prepaid.
9. Each partner draws an annual salary of Sh.2,500,000. This is not included in the salaries and wages.

Required:

- (a) Statement of profit or loss and appropriation account in columnar form for the two periods ended 30 June 2021 and 31 December 2021. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 December 2021. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

Linkages Ltd. is a manufacturer of barbed wire. The company's trial balance as at 31 March 2022 was as follows:

	Sh."000"	Sh."000"
Capital		279,500
Drawings	20,000	
Office - Salaries and wages	30,000	
- Rent	50,000	
- Rates	40,000	
Carriage outwards	19,140	
Warehouse expenses	2,700	
Purchases of raw materials	100,000	
Carriage inwards of raw materials	14,000	
Sales		440,000
Purchases of finished goods for sale	10,000	
Carriage inwards of finished goods for sale	4,000	
Inventory at 1 April 2021:		
- Raw materials	21,000	
- Work-in-progress	15,000	
- Finished goods	18,000	
Factory wages	84,000	
Royalties	20,000	
Factory expenses (direct)	28,000	
General factory expenses	27,000	
Plant and equipment at cost	90,000	
Accumulated depreciation (1 April 2021)		36,000
Delivery vehicles running expenses	13,500	
Trade receivables and trade payables	74,000	6,500
Bank balances	84,300	34,500
Provision for unrealised profit		4,140
Delivery vehicles at cost	48,000	
Accumulated depreciation (1 April 2021)		<u>12,000</u>
	<u>812,640</u>	<u>812,640</u>

Additional information:

- Rates paid in advance as at 31 March 2022 amounted to Sh.6,000,000.
- Direct factory wages accruing as at 31 March 2022 amounted to Sh.9,000,000.
- Inventories as at 31 March 2022 were valued as follows:

	Sh."000"
Raw materials	27,000
Work-in-progress	24,000
Finished goods	31,050
- Depreciation is to be charged at 10% per annum on cost for plant and equipment and 25% per annum on cost for delivery vehicles.
- Manufactured goods are transferred to the warehouse at markup of 25% of factory cost.

Required:

- (a) Manufacturing account for the year ended 31 March 2022. (6 marks)
- (b) Statement of profit or loss for the year ended 31 March 2022. (7 marks)
- (c) Statement of financial position as at 31 March 2022. (7 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) In relation to public sector accounting, explain the following terms:

(i) Recurrent expenditure. (2 marks)

(ii) Development expenditure. (2 marks)

(b) The following are the summarised financial statements of Chora Ltd. as at 30 June 2021 and 30 June 2022:

Chora Ltd.

Statement of profit or loss for the year ended 30 June 2022:

	Sh. "000"
Revenue	44,280
Cost of sales	<u>(28,860)</u>
Gross profit	15,420
Operating expenses	<u>(4,710)</u>
Interest expenses	<u>(450)</u>
Profit before tax	10,260
Tax expenses	<u>(4,860)</u>
Profit for the year	5,400
Other incomes:	
Gain on revaluation of property, plant and equipment	<u>3,000</u>
Total income	<u>8,400</u>

Statement of financial position as at 30 June:

	2022	2021
	Sh. "000"	Sh. "000"
Non-current assets:		
Property, plant and equipment	27,750	22,110
Intangible assets	<u>8,700</u>	<u>4,800</u>
	<u>36,450</u>	<u>26,910</u>
Current assets:		
Inventories	10,800	6,810
Trade receivables	8,220	9,720
Treasury bills	4,290	1,380
Cash and cash equivalents	<u>870</u>	<u>3,510</u>
	<u>24,180</u>	<u>21,420</u>
Total assets	<u>60,630</u>	<u>48,330</u>
Equity and liabilities:		
Equity:		
Share capital (Sh.100 ordinary shares)	15,000	12,000
Share premium	10,500	3,000
Revaluation surplus	4,800	1,800
Retained earnings	<u>6,870</u>	<u>7,650</u>
	37,170	24,450
Non current liabilities:		
10% debentures	4,500	3,000
Bank loan	<u>4,440</u>	<u>3,750</u>
	8,940	6,750
Current liabilities	<u>14,520</u>	<u>17,130</u>
	<u>60,630</u>	<u>48,330</u>

Additional information:

1. During the year ended 30 June 2022, impairment loss of Sh.180,000 was charged on intangible assets.
2. Current liabilities comprise of the following:

	30 June 2022	30 June 2021
	Sh. "000"	Sh. "000"
Accounts payable	8,220	10,560
Bank interest payable	510	360
Current tax payable	1,680	4,590
Interest on debentures	150	-
Bank overdraft	<u>3,960</u>	<u>1,620</u>
	<u>14,520</u>	<u>17,130</u>

3. During the year ended 30 June 2022, items of property, plant and equipment with a carrying amount of Sh.3,090,000 were sold for Sh.3,300,000. Profits on these sales were offset against operating expenses.
4. During the year ended 30 June 2022, depreciation charged on property, plant and equipment amounted to Sh.1,710,000. Property, plant and equipment of Sh.1,680,000 was acquired through a bank loan during the year.
5. During the year ended 30 June 2022, Chora Ltd. made a 1 for 8 bonus issue, capitalising its retained earnings followed by a rights issue.

Required:

Statement of cash flows in accordance with the requirement of International Accounting Standard (IAS) 7, "Statement of cash flows" for the year ended 30 June 2022.

(16 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four criteria that an asset should satisfy for it to be classified as a current asset. (4 marks)
- (b) Discuss three guiding ethics for professional accountants. (6 marks)
- (c) Explain the following terms:
 - (i) Bonus issue of shares. (2 marks)
 - (ii) Rights issue of shares. (2 marks)
- (d) Explain the significance of the following:
 - (i) Return on investment (ROI). (2 marks)
 - (ii) Gross profit to sales. (2 marks)
 - (iii) Price earnings ratio (P/E ratios). (2 marks)

(Total: 20 marks)

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